



**AUDIT COMMITTEE
MAY 17, 2011
12:30 P.M.**

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

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 March 16, 2011** (pages 1-6)
- (2) Review Results of Annual Student Financial Aid Audit (page 7-12)
- (3) Audit Planning Related to Systemwide Risk Assessment (pages 13-21)

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
March 16, 2011**

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

Audit Committee Members Absent: Trustee Philip Krinkie.

Other Board Members Present: Trustees Duane Benson, Cheryl Dickson, Clarence Hightower, 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 March 16, 2011, at Wells Fargo Place, 4th Floor Board Room, 30 East 7th Street in St. Paul. Chair Van Houten called the meeting to order at 10:38 a.m. and reviewed the agenda.

Approval of the Audit Committee Meeting Minutes

Chair Van Houten called for a motion to approve the January 18, 2011 audit committee meeting minutes. There was no dissent and the motion carried.

1. Select External Auditors for Institutional Financial Statement Audits (Action Item)

Ms. Beth Buse, Executive Director of Internal Auditing, reviewed the request for proposal process and information about the seven proposals that were received. She noted that Kern DeWenter Viere was the lowest bidder and that they had provided good service to the system in the past. She recommended Kern DeWenter Viere as the firm to audit Minnesota State University, Mankato, Minnesota State University Moorhead, St. Cloud State University and Winona State University. She stated that it was the desire of Bemidji State University and Minnesota State Community & Technical College to continue contracting with the firm of Baker Tilly Virchow Krause. She noted that although the firm was not the lowest cost alternative, they had submitted competitive pricing and consideration was given to the additional costs associated with switching firms, the impact on finance staff and the impact of the Statewide Integrated Financial Tools (SWIFT) implementation that the institutions would be absorbing at the end of the fiscal year.

Finally, Ms. Buse stated that the package price for each college and university contract would be lower than the previous contract cycle. She attributed the favorable pricing to the market, and to the work done by the Minnesota State Colleges and Universities that produced unqualified opinions, and no significant deficiencies or material weaknesses in the previous year.

Trustee Van Houten noted that Kern DeWenter Viere and Baker Tilly Virchow Krause had both been under contract with the system for a number of audits over the years. He asked Ms. Buse to comment on the decision to award bids to these firms versus bringing in a new firm.

Ms. Buse stated that there had been significant discussion between staff from Vice Chancellor King's office and the Office of Internal Audit, as well as with the Chief Financial Officers from the institutions. She noted that at some point it might be desirable to bring in another firm, but because there had been very competitive pricing and because of the work effort that would need to occur on the campuses, it made sense to contract with the same firms for this round of audits.

Trustee McElroy asked if the three auditing firms currently under contract had been the same auditors since the beginning, or if there had been any turnover in auditors over the years. Ms. Buse stated that the college and university audits had been awarded to the same three firms over the years, but that there had been another system auditor during the first three year contract period. Trustee McElroy stated that he would trust the judgment of the recommendation, but added that Minnesota has a number of very good audit firms that could be considered in the near future. Trustee Van Houten agreed and stated that there would opportunity in the near future to either change audit firms or add an additional audit firm to the mix of external auditors.

Trustee Van Houten called for a motion to approve the selection of the External Auditors for Institutional Financial Statement Audits. *Trustee McElroy made the motion, Trustee Renier seconded. The Audit Committee recommends that the Board of Trustees approve the following motion:*

RECOMMENDED COMMITTEE ACTION

The Audit Committee recommends that the Board of Trustees approve the following motion:

RECOMMENDED BOARD OF TRUSTEES MOTION

The Board of Trustees approves the appointment of Kern, DeWenter, Viere, Ltd., and Baker Tilly Virchow Krause, LLP to serve as external auditors for six colleges and universities. The firm of Kern, DeWenter, Viere, Ltd. will serve as external auditor for Minnesota State University, Mankato, Minnesota State University Moorhead, St. Cloud State University, and Winona State University. The firm of Baker Tilly Virchow Krause, LLP will serve as external auditor for Bemidji State University and Minnesota State Community & Technical College. The scope of these audit services shall include an annual audit of the general financial statements of the above mentioned colleges and universities. The term of these appointments begins upon execution of contracts and shall continue to fulfill external auditing needs for fiscal years 2011 to 2013.

The Board of Trustees authorizes the Executive Director of Internal Auditing and the Vice Chancellor/Chief Financial Officer to negotiate contracts with Kern DeWenter, Viere, Ltd., consistent with the terms contained in its proposal dated February 22, 2011, and Baker Tilly Virchow Krause, LLP, consistent with the terms contained in its proposal

dated February 24, 2011.

2. Status Report on Audit Findings (Information Item)

Trustee Van Houten began by stating that there would always be a continuous flow of incoming and resolved audit findings. He stated that his concern was for outstanding audit findings that were not being dealt with in a timely way, presented an immediate risk, or an increased number of findings that might indicate an institution or systemic process issue.

Ms. Buse stated that the Chancellor and the board were committed to resolving outstanding audit findings and that the report presented to the committee would show the progress toward resolving audit findings. She reminded members that the goal was to resolve audit findings by the end of the fiscal year.

Ms. Buse stated that each president received a letter that contained a table of audit finding activity for their individual institutions. She stated that as of June 2010, there were 108 audit findings that were outstanding, since then 171 audit findings had been added and 168 were resolved. There were 111 audit findings that remained unresolved.

Ms Buse stated that they broke those 111 findings into two parts; findings that were making satisfactory progress and findings that were making unsatisfactory progress. She explained that campuses that were doing what they were supposed to be doing to resolve particular findings were deemed to be making satisfactory progress. Those included new findings that may have recently been brought to the attention of a campus and were just beginning to be addressed. In other cases satisfactory progress was made when a campus had resolved a finding, but internal auditing held the finding open for a period of time to ensure that the resolution was sustained.

Ms Buse reported that 59 findings were making unsatisfactory progress. She explained that they were either old and had not been resolved, or in some cases, a few that were newer audit findings but were not making adequate progress towards resolution by the institution provided implementation date.

Trustee Vekich stated that it would be helpful to know how many of those 111 findings were old enough to be included in the original 108 findings. Ms. Buse stated that she would add that breakout to future updates. Trustee Vekich asked about the current ages for the remaining audit findings. Ms. Buse stated that as much as 75% of the 59 unsatisfactory progress findings were over a year old, and in some cases, over two years old.

Ms. Buse broke out outstanding findings with unsatisfactory progress by type and by classification. Finally she highlighted the Northeast Higher Education District which had 31 of the 59 outstanding audit findings, the majority of which were over two years old, and she highlighted Fond du Lac Tribal and Community College which had a critical finding that dated back to 2001. She informed members that the presidents from those two institutions were present and prepared to speak to the committee.

Audit Committee Minutes – March 16, 2011

Trustee Van Houten noted that there were three critical findings and he asked which critical findings would fall into which finding type. Ms. Buse stated that one critical finding was a segregation of duties issue and one was a reconciliation issue.

Trustee McElroy asked about the kinds of issues that made up the academic resale programs. Ms. Buse explained that the Office of Internal Auditing had done a report on Auxiliary and Supplemental Revenues. One of the components of that study was to look at academic resale activities and that the outstanding audit findings related to the controls within academic programs that brought in revenues, such as automotive and cosmetology programs.

Trustee Oliveria asked what kind of reasons there might be for findings being unresolved after two years. Ms. Buse stated that she believed staffing turnover caused issues to remain unresolved.

Trustee Van Houten invited President Larry Anderson and Ms. Stephanie Hammitt, Chief Financial Officer at Fond du Lac Tribal and Community College to address the committee.

President Anderson thanked the members for the opportunity to address the Audit Committee. He stated that he had received assistance from the Office of Internal Auditing, the Finance Division, and others within the system office. He further stated that Chancellor had been very specific in his conversations about the audit findings at the college and how they needed to be addressed. He assured the committee that he understood the seriousness of resolving the outstanding audit findings. He stated that in the past two years Fond du Lac Tribal and Community College hired a new Chief Financial Officer and they had gone from thirty-three outstanding audit findings down to five audit findings. He introduced Ms. Stephanie Hammitt.

Ms. Hammitt stated that of the five remaining findings, one had been resolved the previous week, and they had a corrective action plan in place to resolve the remaining four findings by April 15, 2011. She stated that over the last two years they had documented processes and laid out expectations for staff. She added that they were using staff meetings and duty days to give staff an understanding of how audit findings affect the institution and the system. Finally Ms. Hammitt stated that they planned to ask Ms. Kim McLaughlin, Regional Audit Coordinator, to do further testing in May to ensure that the remaining four findings were resolved.

Trustee Van Houten invited President Sue Collins and Ms. Karen Kedrowski, Vice President of Finance and Administration, at the Northeast Higher Education District to address the committee.

President Collins apologized to the committee for number of outstanding auditing findings at the Northeast Higher Education District. She gave the committee her full assurance that the audit findings would be resolved by May 31, 2011 and there would be time for the Office of Internal Auditing to do testing before the June 30, 2011 deadline.

President Collins stated that when she came into the presidency, there were three colleges operating in a deficit, three colleges were on report with the Higher Learning

Commission for their financial ratios, fund balances had been spent down and required reserves were not met. She stated that over the last two years there had been financial work out plans that were required by the Office of the Chancellor and the Higher Learning Commission and there had been significant progress in terms of financial management. She stated that their financial composite index for the district had gone from .39 to 1.89 in 2010 and she stated that she expected continued improvement. President Collins further stated that she had endeavored to secure executive financial leadership for the district. They had a failed search in 2009 for their Vice President of Finance position. In 2010, the position was reposted and they implemented a plan for business services that would restructure the business offices. She stated that she had recently hired Ms. Karen Kedrowski to fill the Vice President of Finance and Administration position.

President Collins assured the Chancellor and the Audit Committee that the Northeast Higher Education District would be in compliance with Board expectations by the deadline. She stated that the plan for restructuring the business offices would aid in their commitment that audit issues would diminish over time because it involved standardization of business practices.

Ms. Kedrowski stated that they had a very aggressive plan to address the thirty-two outstanding findings. She stated that they had already resolved one finding and there were waiting for feedback on a couple more findings before they could be listed as resolved. She stated that they were on track to have work completed on thirteen of the findings by the end of March, another seven findings would be resolved by the end of April, and the balance would be resolved by the end of May. Ms. Kedrowski stated that half of the audit findings were classified as Important and the other half were classified as Low Impact.

Vice Chancellor King invited President Collins to think about whether the COOP could pose part of a solution for them from a business practice standpoint. It would help to eliminate layers of internal control problems, particularly in a multi-campus environment. President Collins thanked Vice Chancellor King for her suggestion.

Chancellor McCormick stated that there had been a structural problem within the Northeast Higher Education District, and that President Collins had significantly changed that business structure. He was confident that those changes would help the college resolve their findings. He credited both President Collins and President Anderson for the work they done to change operations and hire new people to help them drive the agenda.

Trustee Van Houten stated that the Audit Committee would invite both presidents to return give an update at the May meeting.

Finally, Trustee Van Houten outlined several recommendations that had come from questions raised by Trustee Vekich.

- The first recommendation would be to incorporate an aging analysis that would track the amount of time an auditing finding had remained outstanding.
- The second recommendation would be to prioritize audit findings by the type of exception ranging from critical to limited impact.

Audit Committee Minutes – March 16, 2011

- Another recommendation would be to attach an expected completion date to make it possible to quickly identify audit findings that were behind schedule.
- Finally, it would be helpful to include information about whether additional resources were needed or recommended to resolve an audit finding.

The meeting adjourned at 11:22 a.m.

Respectfully submitted,
Darla Senn, Recorder

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: May 17, 2011

Agenda Item: Review Results of Annual Student Financial Aid Audit

- 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 1A.2. Part 5, Subpart E charges the Audit Committee with overseeing the work of external auditors.

Scheduled Presenter(s):

Eric Wion, Deputy Director, Office of Internal Auditing
Christopher Halling, System Director for Financial Aid
Craig Popenhagen, Principal with LarsonAllen , LLP

Outline of Key Points/Policy Issues:

- The auditor's report on compliance for the major federal award programs expressed an unqualified opinion
- The audit report contains four isolated compliance findings related to certain federal financial aid regulations.

Background Information:

- Federal law requires an annual audit of major federal financial assistance programs, including the student financial aid programs.
- MnSCU received over \$361 million in federal grants and students borrowed nearly \$651 million of federal loans in fiscal year 2010.
- The firm of LarsonAllen, LLP. conducted the audit as part of its responsibilities as principal auditor for MnSCU.

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

BOARD INFORMATION
REVIEW RESULTS OF ANNUAL STUDENT FINANCIAL AID AUDIT

BACKGROUND

Copies of this report have been provided to members of the Board of Trustees in the Board materials for the May 17, 2011 meeting. Additional copies will be made available at the meeting. The report was prepared by the firm of LarsonAllen LLP, as part of its responsibilities as principal auditor for the Minnesota State Colleges and Universities. The results of this report will be incorporated into the State of Minnesota's Single Audit Report that will be released in May. Copies of that report will be available on the Minnesota Management and Budget web site at (<http://www.finance.state.mn.us/fin/acct>).

Date Presented to the Board of Trustees: May 18, 2011



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Audit Committee May 17, 2011 Meeting

Review 2010 Federal Financial Assistance Audit Report

Eric Wion, Deputy Director of Internal Auditing
Christopher Halling, System Director for Financial Aid
Craig Popenhagen, Principal with LarsonAllen LLP

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Background

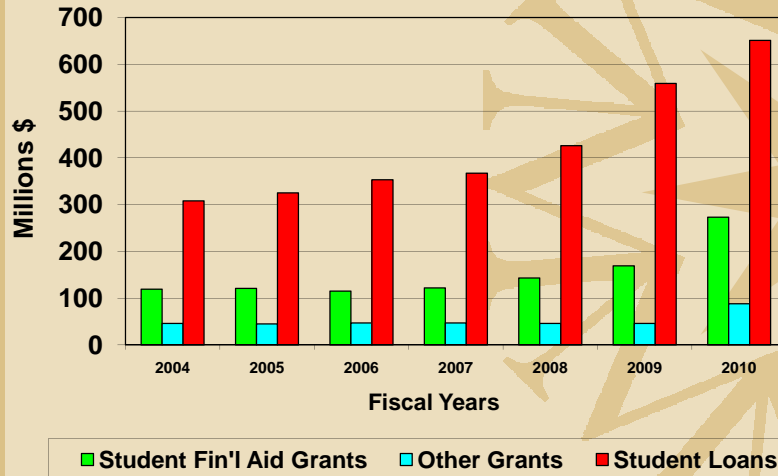
- Annual audit required by federal law
- Focus on major programs
 - Student Financial Aid
 - American Recovery and Reinvestment (ARRA)
- Testing performed by Principal Auditor
 - With assistance from Internal Auditing
- Results included with State of Minnesota Report
 - To be submitted to federal government by 3/31/10 (likely mid to late May)

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MnSCU Federal Financial Assistance: 2004 to 2010



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Note: Student Loans Exclude Perkins and Nursing Loans



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ARRA

- Nearly \$38 Million in 2010
 - 98 % State Fiscal Stabilization Fund Education State Grants (SFSF)
- No Audit Findings

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FY Comparison – Fin. Aid Grants

Program Title	FY10 TOTAL	FY09 TOTAL	Amount Change	% Change
Federal Pell Grant Program	\$254,681,709	\$152,803,128	\$101,878,581	67%
Federal Work-Study Program	\$7,373,199	\$7,331,334	\$41,865	1%
Federal Supplemental Education Opportunity Grants (SEOG)	\$6,389,253	\$5,704,202	\$685,051	12%
Academic Competiveness Grants	\$3,133,645	\$2,218,084	\$915,561	41%
National Science and Math Talent (Smart) Grants	\$1,526,987	\$959,877	\$567,110	59%
Teacher Education Assistance for College and Higher Ed. Grants	\$233,734	\$70,000	\$163,734	234%
Totals	\$273,338,527	\$169,086,625	\$104,251,902	62%

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FY Comparison – Fin. Aid Loans

Program Title	FY10 TOTAL	FY09 TOTAL	Amount Change	% Change
Federal Family Education Loans (FFEL)	\$458,211,894	\$484,954,435	(\$26,742,541)	-6%
Federal Direct Student Loans (FDSL)	\$192,552,846	\$74,151,286	\$118,401,560	160%
Totals	\$650,764,740	\$559,105,721	\$91,659,019	16%

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FY 2010 Student Financial Aid Findings

- 10-1 Incorrect calculation of refunds of federal awards - Questioned costs \$1053(1 university and 1 college)
- 10-2 Return of Title IV funds (1 college)
- 10-3 Late return of Title IV funds (3 colleges)
- 10-4 Failure to meet 7% community service requirement in Federal Work Study program - Questioned costs \$3645 (1 college)

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Prior Year (2009) Student Financial Aid Findings

- 7 Prior Findings
- All Were Resolved

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: May 17, 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 June 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 available resources and risk assessment results.

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

Executive Summary

A three-staged risk assessment identified enterprise strategic, fiscal, and information technology risk factors. Given these factors and available audit resources, we recommend the following audit priorities for fiscal year 2012:

- Continue core assurance services. These core services include meeting contractual obligations to external audit firms, follow-up on outstanding audit findings and conducting fraud investigations.
- Reserve resources to allow selection of a focused systemwide project, based on priorities of the Board of Trustees and Chancellor.
- Complete a comprehensive information technology audit risk assessment.
- Conduct audits in the following areas:
 - Internal control and compliance audit of Southwest Minnesota State University;
 - Business cycle focused audits of state university payroll and ISRS security; and
 - Information technology audit of vulnerability management practices.

Audit Committee input is needed on the above recommendation in order to complete the fiscal year 2012 audit plan by its deadline.

Audit Risk Assessment Methodology and Results

Professional internal auditing standards require that the audit plan be based on a risk assessment to ensure that resources are focused on the most critical projects.

When developing the audit risk assessment process, our office conducted research on internal audit risk assessment best practices and methodologies. We reviewed materials and held conversations with internal audit employees from many higher education systems and institutions to determine the processes used for their annual audit risk assessment. The following table illustrates several of the processes that we took into consideration:

Higher Education System	Audit Risk Assessment Methodology
Austin Community College District	Enterprise risk management process
Arkansas State University System	Self-assessment of risk of auditable units and survey of leadership
Oregon University System	On-line survey of leadership, fiscal analysis, risk decision model and discussions with leadership
University of Minnesota	Risk decision support model, fiscal analysis, and discussions with leadership

We discovered that methods used to conduct risk assessments and build annual audit plans are very diverse. However, common underpinning factors include the maturity of an enterprise risk management program, available audit resources, complexity of the organization, and auditor professional judgment.

Based on the results of our research, we developed an audit risk assessment approach that took into consideration enterprise strategic risks, financial risks, and information technology risks.



Enterprise Strategic Risks

Representatives of the Finance Division, Office of Internal Audit, and Office of General Counsel held meetings with various groups of system, college, and university leaders to discuss risk factors affecting the system. Specifically, the team met with:

- 25 colleges that do not have an annual financial statement audit. These meetings were with college leadership and were held in conjunction with Vice Chancellor King’s regional Trends and Highlights meetings.
- Three institutions that have an annual financial statement audit. Meetings were held with leadership from Bemidji State University, Minnesota State University, Mankato, and Rochester Community and Technical College.
- Focused groups from various institutions representing college and university registrars and finance officers.

In addition, the Office of Internal Auditing had focused discussions with the Compliance Oversight Committee, Leadership Council, Interim Vice Chancellor for Academic and Student Affairs, Vice Chancellor of Finance, Vice Chancellor of Human Resources, Chancellor, the three external audit firms and the Legislative Auditor.

Common themes that came to light in nearly all of the conversations included:

- Difficult economic times the State of Minnesota and the nation are facing and the resulting decline in state support of higher education.
- Loss of knowledge due to turnover of key staff.
- Insufficient personnel in fundamental areas.

Potential risk areas identified during discussions with leadership where internal audit could provide audit coverage include:

- Financial aid administration;
- Student and employee safety;
- Online education;
- Employee professional development; and
- Tuition and fee costs.

Historically, internal audit has scheduled a study of a topic like those identified above to provide insight to system leaders. Recent studies have focused on undergraduate student credit transfer, auxiliary and supplemental revenues, affiliated foundations and implementation of student success systems.

Financial Risks

Organizations are held to a higher standard of care and due diligence when public funds are at risk. Internal control and compliance audits provide independent assurance to leaders that internal controls are properly designed and operating as intended. These audits often focus on risky financial activities, which are not necessarily the most material financial activities.

Internal audit recently assessed fiscal risk factors at each college and university, using several risk metrics outlined below:

Metric Category	Factors Measured
Audit	<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	<ul style="list-style-type: none"> • Operating gains or the size of losses • Composite Financial Index (CFI) • Overall materiality of financial transactions
Business Operations	<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

All of the above metrics were assigned a point value to determine an overall ranking for each college and university. In addition, we used professional judgment to make adjustments to certain institution's rankings for significant financial risk factors that were not part of the standard risk model. This work helped us identify ten potential audit targets with the greatest financial risk, as discussed below:

- 5 universities were included in the top 10. Their scores generally ranked high as a result of material financial activity, large numbers of people with incompatible access, and the length of time since the last internal control and compliance audit. These universities have not had an internal control and compliance audit since 1999 or 2000.
- 5 colleges were included in the top 10. Their scores were generally ranked high due to the volume of past internal control and compliance findings and the number of outstanding audit findings. Four of these colleges had operating losses in 2010 and one has not had an internal control and compliance audit since 2001.

When developing the audit plan, it is important to keep in mind that internal control and compliance audits can be structured in different ways. The following table describes the differences between institutional and business cycle audits:

Audit Scope	Pros	Cons
Individual College or University	<ul style="list-style-type: none"> • Scope can be customized to focus on the riskiest activities and several different business/control cycles can be reviewed • Recommendations may be tailored to the institutions' particular circumstances • Provides independent assurance on how well the institution is protecting resources • Leadership is comforted by a known audit presence 	<ul style="list-style-type: none"> • Costly due to the number of entities • Institutions may go a long period without an audit
A Single Functional Area (payroll for example)	<ul style="list-style-type: none"> • Provides independent assurance across the system for one functional area • May be more likely to identify systemic problems and recommendations to benefit more institutions 	<ul style="list-style-type: none"> • Scope is very limited • Business/control cycles may go a long period without an audit • Limited audit presence at individual institutions • Costly due to differing business practices across the system

Information Technology Risks

Some information technology controls are subject to basic audit coverage as part of the annual audit of the system-wide financial statements. However, the primary purpose of a financial statement audit is to opine on whether the financial reports are free of material misstatements. Information technology audits fill the gap by providing management with independent assurance that critical information technology operations are efficient, effective, and secure.

In prior years, the Legislative Auditor conducted nine information technology audits under a contract with the Minnesota State Colleges and Universities. However, work has not been done since this contractual relationship ended in 2005. Recognizing that information technology now transcends all aspects of the system and institutions could not function without technology, we believe that it is important to once again provide leaders with independent assurance in this mission critical area.

Certain information technology risks were identified during the work done assessing enterprise strategic and financial risks. We supplemented this lists with other information technology risks to identify key areas where audit coverage could provide system leaders with independent assurance:

- Loss, theft or unauthorized changes to student data. The specific focus of our work would assess how effectively colleges and universities protect data when it is removed from enterprise systems and managed on local computers.
- Vulnerability management. The system made a substantial investment in a state of the art enterprise vulnerability and threat management system. This audit would assess how effectively information technology professionals are using the system to find and fix security vulnerabilities before they are exploited.
- Continuity of operations planning. This audit would determine if the system could adequately respond, recover, resume, and restore people, business processes, and technology, should a disruption occur.
- Application controls. Application controls drive the integrity of information gathered, stored, and processed by critical computer systems. Possible candidates for audit would be the ISRS financial aid and security modules.
- Banking and vendor controls. As a combined financial and information technology audit, we could potentially assess the adequacy of controls that prevent unauthorized payments or transfers from local bank accounts.
- Payment Card Industry Data Security Standard compliance. Organizations that accept credit cards could face steep fines for failing to comply with PCI standards. Recognizing this, the system spent a significant amount of money to move the organization towards PCI compliance. This audit would provide an independent assessment to leaders on the current state of PCI compliance.

The Office of Internal Auditing is planning to develop a more comprehensive information technology risk assessment in fiscal year 2012, with the addition of dedicated information technology audit resources.

Audit Budget and Resource Planning

Board Policy 1A.2, Part 5, Subpart E, states that the Office of Internal Auditing reports directly to the Audit Committee and it is charged with oversight of internal and external audits. However, the Office of Internal Auditing is included in the same budget process as other divisions in the Office of the Chancellor. The budget process is now underway, with a budget expected to come before the Board in June. Appendix A provides information on actual and proposed audit expenditures and a summary of technical hour usage for the Office of Internal Auditing.

Past critical events and planning assumptions for determining available audit resources can be seen in the following sections:

Prior to 2010

The Office of the Legislative Auditor had been a primary source of audit services for the system. Since shortly after the 1995 merger, the system had a contract with the Legislative Auditor to conduct financial audits of each college and university, following a three-year revolving schedule. Up until 2006, the contract also provided for information technology audit work. With the hiring of CPA firms to conduct financial statement audits, the role of the OLA changed to focus on colleges that did not have annual CPA audits.

Fiscal Year 2010

Internal auditing staff began assisting with the college audits due to resource constraints by the Legislative Auditor. However, the Legislative Auditor did conduct an internal control and compliance audit at St. Cloud State University, outside of the contract with the Minnesota State Colleges and Universities.

Office of Internal Auditing Employee FTE

Fiscal Year 2009 = 11
Fiscal Year 2010 = 9.5
Fiscal Year 2011 = 8
Fiscal Year 2012 = 10

The Office of Internal Auditing absorbed a 15 percent budget reduction. This reduction resulted in the elimination of consulting services and a reduction in capacity for other services.

Fiscal Year 2011

By mutual agreement, the contractual arrangement with the Office of the Legislative Auditor ended.

Though internal audit has provided staff resources to external audits in support of financial statement audits over the past ten years, the office plans to eliminate this

support as contracts expire to focus on more value added priorities. New Executive and Deputy Directors were hired and the office was restructured to improve information technology audit capabilities.

The Office of Internal Auditing has seen a marked increase in fraud allegations, placing additional demands on resources.

Fiscal Year 2012 Assumptions

Hours to support follow-up on outstanding audit findings will be reduced due to the clean-up effort over the past two years. Also, with fewer audits, there has been a reduction in the number of audit findings.

An information technology audit strategy for the system will be developed. The Office of Internal Auditing will also use consultants to help develop and implement an information technology audit approach. This would be a onetime project, using approximately \$100,000 in salary savings from fiscal year 2011.

Audit resources will be used to execute a systemwide project, designated by the Chancellor and Board of Trustees. The office will add one auditor to focus on financial internal control and compliance audits.

Next Steps

In June, a proposed audit plan for fiscal year 2012 will be presented to the Board of Trustees for approval. The proposed plan will include:

- A determination of audit priorities based on the input from trustees from the May Audit Committee meeting and available audit resources.
- Evaluation and recommendation for an external audit approach for obtaining audited financial statements.

Date Presented to the Board of Trustees: May 17, 2011

Appendix A

Actual and Proposed Audit Expenditures by Fiscal Year

	2008 Actual	2009 Actual	2010 Actual	2011 Projected	2012 Planning	2013 Planning
Salaries & Benefits	1,074,187	1,114,179	1,025,074	876,866	1,084,711	1,084,711
Other	49,375	36,601	51,677	44,000	64,423	64,423
Total	1,123,562	1,150,780	1,076,751	920,866	1,149,134	1,149,134
Contract - OLA	236,130	231,017	223,522	-	-	-
Contract - CPA (1)	594,351	611,004	615,671	606,546	569,821	560,000
Contract - Other	-	-	-	16,000	120,000	20,000
Total	830,481	842,021	839,193	622,546	689,821	580,000
Total Audit Costs	\$1,954,043	\$1,992,801	\$1,915,944	\$1,543,412	\$1,838,955	\$1,729,134

- (1) Cost of external auditing services from CPA firms is covered by individual colleges and universities and the Finance Division.

Summary of Technical Hour Usage

Actual 2008	Actual 2009	Actual 2010	Projected 2011	Estimate 2012	Estimate 2013	Estimate 2014
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Internal Auditing

Total Available Hours	12,439	11,914	9,743	7,789	9,510	10,180	10,180
External Auditor Support	2,492	1,760	1,972	1,720	1,480	1,200	-
Follow-up	1,905	2,293	2,385	2,500	700	800	1000
Fraud Investigations	1,518	1,288	895	1,400	1,300	1,300	1,300
Consulting Services	732	1,442	-	-	-	-	-
Professional Advice	853	750	638	500	500	500	500
Other	1,975	1,663	901	1,500	930	930	930
Total Committed	9,475	9,196	6,791	7,620	4,910	4,730	3,730
Information Technology	-	-	-	-	1,500	1,500	1,500
Financial I/C and Compliance	-	346	1,200	169	2,000	2,000	2,700
Systemwide Projects	2,964	2,372	1,752	-	1,100	1,950	2,250
Total Project	2,964	2,718	2,952	169	4,600	5,450	6,450

Legislative Auditor

Contract - College Audits	7,822	7,428	3,602	-	-	-	-
University Audits	-	-	2,148	1,500	-	-	-
Total	7,822	7,428	5,750	1,500	2,000	2,000	2,000

Note: Analysis of technical hours excludes Executive and Deputy Director time.