



**AUDIT COMMITTEE  
JUNE 19, 2012  
10:30 A.M.**

**MCCORMICK ROOM  
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 15, 2012** (pages 1-6)
- (2) Approve Annual Audit Plan for Fiscal Year 2013** (pages 7-18)
- (3) Review Results of University Personnel and Payroll Internal Control and Compliance Audit (pages 19-20)
- (4) Board Committee Goal Update (pages 21-27)

Members

James Van Houten, Chair  
Phil Krinkie, Vice Chair  
Dan McElroy  
David Paskach  
Michael Vekich

**Bolded** items indicate action required.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES**  
**BOARD OF TRUSTEES**  
**AUDIT COMMITTEE MEETING MINUTES**  
**May 15, 2012**

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**Audit Committee Members Present:** Trustees James Van Houten, Chair; Philip Krinkie, Dan McElroy, David Paskach, and Michael Vekich.

**Audit Committee Members Absent:** none.

**Others Present:** Chancellor Steven Rosenstone, Trustee Scott Thiss, Chair; Trustee Brett Anderson, Trustee Duane Benson, Trustee Cheryl Dickson, Trustee Louise Sundin, and President Edna Szymanski.

The Minnesota State Colleges and Universities Audit Committee held its meeting on May 15, 2012, 4<sup>th</sup> Floor McCormick Room, 30 East 7<sup>th</sup> Street in St. Paul. Chair Van Houten called the meeting to order at 1:27 p.m. and reviewed the agenda.

**1. Approval of the Audit Committee Meeting Minutes**

Chair Van Houten reviewed the highlights of the April meeting minutes, and asked Ms. Beth Buse, Executive Director of Internal Auditing, to give updates on the search for the Internal Control and Compliance Auditor and the status of the State University Payroll and Personnel Internal Control audit. Ms. Buse stated that she was working with Human Resources to get the new position classified and she hoped to fill the position as soon as possible. She stated that the fieldwork for the State University Payroll and Personnel Internal Control audit had been completed and she hoped to bring that report to the committee in June. Trustee Van Houten also reminded members that the Minnesota Department of Higher Education had been conducting audits of the colleges and universities. Ms. Buse had brought a summary of those audits to the committee in April and the audit committee requested that they receive a summary of those audits every year. Trustee Van Houten thought it would be helpful to have a list of the kinds of reports that the audit committee could expect to see annually, along with an estimated timeline. Ms. Buse agreed and stated that she would incorporate an annual summary into the fiscal year 2013 audit plan. *Trustee Van Houten called for a motion to approve the April 18, 2012 Audit Committee meeting minutes. There was no dissent and the motion carried.*

**2. Review Results of Audit Risk Assessment, Including Information Technology Audit (Information Item)**

Ms. Buse stated that internal audit standards and board policy required that an audit plan be developed and brought to the audit committee annually for approval. She stated that she planned to bring that proposed audit plan to the committee in June. She added that in order to prepare that audit plan, she needed to have a discussion on risk assessment with the committee.

Ms. Buse stated that she had taken the same three-pronged approach to building the audit risk

assessment that had been used last year, including enterprise risks, financial risks and information technology risks. She added that the Leadership Council had done a brain storming session to discuss enterprise risks and she shared the four themes that were highlighted most from that session.

Ms. Buse discussed financial risks, which looked at individual institution risks and at functional areas. Trustee Van Houten asked Ms. Buse to address how the management model would identify a maximum possible loss in terms of priorities. Ms. Buse stated that the model looked at the financial condition metric. A point scaling approach was used so that an institution would have more points based on the materiality of their transactions and other factors. She noted that there had been an overall decrease in financial risk, but that based on the current model, eventually there would be an increase because of the audit metrics and the fact that a significant number of points were assigned for individual college and university internal control and compliance audits.

Ms. Buse stated that five institutions had a high financial risk, primarily because it had been over ten years since they had an internal control and compliance audit, the level of material financial activity, and the number of incompatible security accesses. Ms. Buse described different types of functional areas that could be reviewed when assessing functional area risks. She stated that they had been working with Vice Chancellor King and her staff in assessing the risk over these areas; considerations were materiality, transaction volume and complexity, susceptibility to fraud, the number of compliance requirements, and past audit history.

Ms. Buse highlighted a few areas with high risk, including banking and cash controls, purchasing cards and document imaging. These will be potential topics for the fiscal year 2013 audit plan.

Vice Chancellor King stated that they were moving aggressively to increase the campuses use of the tools that were available to them through the purchasing card program. She suggested that it might be better to review that program next year to identify any control gaps that might exist once the program was fully adopted. She also asked about the possibility of doing more work in the area of bookstores.

Ms. Buse stated that, as part of the audit plan, she would be discussing internal auditing's role in providing assurance services versus providing advisory services. She stated that she hoped to reserve time within the audit plan for advisory services. She gave the example in the area of purchasing card work, internal audit could offer advisory services as the program was being developed, or provide assurance that the controls that management had put in place were working as intended.

Trustee McElroy agreed that in an organization as diverse as MNSCU, there would be opportunity to use advisory services even just to share best practices. He wondered if the function belonged as part of internal audit which reported directly to the board or if it belonged somewhere else. Trustee Van Houten stated that there was a line between design and consulting, and he cautioned that if the auditors were involved in the design of something, it would be difficult for them to objectively assess the process later. Ms. Buse agreed that management's role was to make decisions on how things were finally developed and implemented, but she

added that advisory services were provided for within internal auditing standards. She added that internal audit departments were looking more advisory services because it could provide more value to the organization to be in the forefront versus waiting until after things were implemented.

Ms. Buse introduced Mr. Eric Wion, Deputy Director for the Office of Internal Auditing and Mr. Darrel Huish, Vice Chancellor for Information Technology. Mr. Wion began by introducing Mr. Roman Potapov who is the new Information Technology Audit Manager.

Mr. Wion presented information on information technology audit risk assessment work. He stated that he and Mr. Potapov had been working to identify risks and to develop a list of potential projects to spend internal audit resources on over the course of fiscal year 2013. He stated that they had met with many information technology professionals as well as groups of professionals to talk about things that were important to those groups and to identify risks in their areas. They had attended the annual system Information Technology Security conference. He stated that they were becoming more engaged with the Chief Information Officer and security communities by attending the bi-weekly Chief Information Officer meetings and monthly security steering committee meetings.

Mr. Wion stated that their overall observations were first, that the system was a large and complex organization and that the technology the organization utilized was equivalently complex and diverse. It has been a very complicated environment to learn and understand. He noted that staff in the system office and at the individual institutions were professional, talented, hardworking, and extremely passionate about technology, about higher education and about serving students, faculty, and staff. Mr. Wion also noted that very few of the information technology professionals had experience working with auditors, so the concept of information technology audit was new to many of them across the system.

Mr. Wion noted that another overall observation was that the system office managed several mission critical enterprise systems that were utilized by all of the colleges and universities. He also noted that individual institutions manage their own unique mission critical systems and networks. He stated that it would take some time for information technology audit to understand what all those unique operating systems were throughout the system. Mr. Wion stated that institutions had various levels of technical expertise but that very few institutions had dedicated information security professionals.

Mr. Wion stated that they had also learned that there were a few institutions that were managing systems that could evolve into enterprise systems. He gave the example of ImageNow, which had functionality that could assist with automating some manual processes. Finally Mr. Wion noted that there was not much guidance or requirements in the form of policies and procedures, systemwide, for information technology and security

Mr. Wion stated that one way to classify or prioritize systems and data was based on confidentiality, integrity, availability, and accessibility. Trustee Van Houten asked what the significance was for prioritizing the systems and data and how it would be used. Mr. Wion explained that internal audit was using this classification informally, but that ideally a similar

classification would be used to determine what controls were necessary in computers systems. He added that many organizations would have some sort of data classification and prioritization scheme on which they base decisions. He stated that currently the system did not have a policy or a guideline that addressed classifications to help determine what the appropriate levels of controls should be.

Mr. Wion stated that the enterprise systems, ISRS, the warehouse, Desire2Learn, and also ImageNow were critical systems because they were utilized by most if not all of the institutions. He stated that confidentiality was high because there were large volumes of sensitive student data, employee data and banking data. He stated that data integrity was medium to high, and that the financial data had to have integrity because the financial statements were based upon that data. The system made important decisions such as awarding degrees, based on the data, so data integrity was very important. He also noted that availability was important; if Desire2Learn was unavailable it would be difficult for faculty to teach and for students to learn. And finally he noted that accessibility was high as well.

Mr. Wion stated that it was difficult for internal audit to make determinations about institution specific systems at this time. He stated that they would begin working on having a better understanding of those systems in the coming year. He did state, however, that they knew several things. Each institution was responsible for managing and securing their own networks, computers, and software. The institutions run a wide variety of software, including commercial and customized built software. Many of the institutions copy ISRS data and store it in their own databases on campus. Institution employees and students access the enterprise systems to conduct business, and each institution has point of sales systems that process credit card transactions.

Finally he informed the committee that they should expect to see a focus on these enterprise systems in the proposed audit plan for fiscal year 2013.

Trustee Paskach asked if there were de facto practices in place that were keeping the system secure in lieu of formal policies, procedures and guidelines on information technology security. Trustee Van Houten reminded everyone that if a deeper conversation about vulnerability and risk situations needed to take place, they had the ability to call for a confidential meeting to benefit the committee with a more detailed discussion. He asked that, at this point the conversation be discussed at a high level. Vice Chancellor Huish stated that although there were few formal policies and guidance to the individual institutions, it should not be inferred that there was no activity or support from system office personnel, or inter-operation sharing of best practices among the institutions. He assured the committee that those things were occurring throughout the system. Mr. Wion concurred.

Trustee Krinkie asked if individual institutions made decisions about the types of external application software that was installed locally. Vice Chancellor Huish stated that those decisions were made locally. Trustee Van Houten asked if there were audit implications to that level of independence. Ms. Buse stated that it added to the complexity of the organization when determining audit priorities, but that there were no policies that prohibited institutions from operating their own networks and running applications that they needed for the missions

of their organizations.

3. Board Committee Goal Update (Information Item)

Ms. Buse gave an update on this year's committee goal to research best practices in audit committees. She informed the committee that she had done research on the topic, but that given how experienced the members of the audit committee were, she welcomed the discussion today on what things members thought worked well and what things they would have liked to have seen some improvement on.

Ms. Buse stated that in doing the research, she found that audit committees had many different practices, but that it was important to consider the context that each committee worked within. She noted that when comparing the system to other higher education systems, it was important to remember, for example, that this system did not have a medical school. She noted that another thing to consider was the division labor between board committees, the number of committees, and what had been assigned by board policy to this audit committee compared to other organizations. And then finally, it would be important to take into account the resource constraints that the system has been working within.

Ms. Buse reviewed her research methodology. She noted that the Association of Governing Boards for Colleges and Universities had published a booklet that might be helpful as part of the orientation material for the new audit committee. Trustee Van Houten reminded members that there was a policy requirement for the Director of Internal Audit to develop some kind of developmental or training program for the audit committee each year. Ms. Buse stated that the training in the past few years had focused mainly on financial statement review, but that may need to be broadened in the future as new members join the committee with different experiences. Trustee Van Houten added that given the loss of the contract with the Legislative Auditor, the role of the audit function was fluctuating and the training for committee members may have to change accordingly as well. He also suggested that it would be appropriate to let the next committee decide the appropriate level of training for them.

Ms. Buse stated that she reviewed quite a bit of information from audit consulting firms as well as other higher education systems. She stated that most of the information was available on websites. She reviewed audit committee charters, agendas, board committee packets and had limited conversations with individuals. She noted that there was some consistency across higher education and industry on the types of activity or the topics that audit committees should cover. She highlighted that information in a handout she provided to committee members.

Vice Chancellor King noted that the outside research did not mention the kinds of programs audits that the audit committee had focused on over the years. She also noted that advisory services were not on the list. She asked if other higher education systems were doing those kinds of audits and services. Ms. Buse explained that her research was related more specifically to the work of audit committees, not to the work done by internal audit departments. She did note, however, that a best practice within industry was to dedicate twenty percent of their time to advisory services. She added that the Institute of Internal Auditors stated that internal auditors should be more engaged in the strategic initiative of the organization and that the audit plan

should align to those strategic initiatives.

Trustee Van Houten asked if the audit plan could include information about how much time could be set aside, given the resources once the office is fully staffed, to work on special projects in the next fiscal year. He further stated that benchmarking and ongoing research of best practices ought to be something that is incorporated into future audit plans.

Trustee Paskach stated that the system has become very comfortable and confident in its financial auditing and he added that the system had begun tackling the information technology security audits. But he stated that it was important for the audit committee to continue to stay focused on enterprise risk management as well.

Chancellor Rosenstone stated that not everything tied to accountability necessarily belonged in the audit committee, though the audit committee may want to play an oversight role on the accountabilities. He added, for example, that there could be accountabilities, benchmarks, or metrics that were established for academic affairs and then academic affairs should be responsible for managing, implementing and reporting back to the Board of Trustees. There could be a macro role for the audit committee to play without every project being brought into the committee for oversight. Trustee Paskach agreed. He stated that historically, the audit committee has driven some of those questions, but ultimately the responsibility belonged to other committees.

Chancellor Rosenstone added that there was a broad discussion to be had at the board level about risk management, and the board could assign responsibility and accountability for various aspects. He noted that as the committee sets its priorities for defining risk it should constantly consider the probability of there being a problem and also the consequences of that problem. He added that the consequences were not always monetary, and could be ones of reputation or other factors. He stated that the system would constantly have to do some triaging of risks, given the scarcity of resources.

Trustee Van Houten agreed, though he reminded the committee that when the internal audit budget and audit plan were approved, it was understood that there could be issues that would arise or projects that could not be anticipated, where internal audit might need to do additional work. He stated that the board was only willing to approve an audit plan under such uncertainty if there was an understanding that if it turned out that it was not going to be adequate, the system would not be held with an inadequate audit system. He noted that at this point that did not appear to be necessary. Trustee Van Houten asked that if there were particular issues that were not being addressed, or issues that others had brought up, those issues ought to be identified in the plan as well.

Ms. Buse agreed that the proposed audit plan would be designed base on where internal audit could most efficiently spend its resources in providing the board assurance and giving the best value to the system. Ms. Buse finished the audit committee practices discussion.

The meeting adjourned at 2:53 p.m.

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

**Agenda Item Summary Sheet**

**Committee:** Audit Committee

**Date of Meeting:** June 19, 2012

**Agenda Item:** Approval of FY 2013 Internal Auditing Annual Audit Plan

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

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

Board Policy 1D.1, part 6, requires the Executive Director of Internal Auditing to present an Audit Plan for each fiscal year.

**Presenter at the Audit Committee meeting:**

Beth Buse, Executive Director, Office of Internal Auditing

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

- The audit plan presents an overview of how the Office of Internal Auditing plans to use its resources in fiscal year 2013.
- Internal audit plans to maintain flexibility in the audit plan given the number of changes that the organization is undergoing and to accommodate needs of a newly named Audit Committee.



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

<b>BOARD ACTION</b>
APPROVAL OF FY 2013 INTERNAL AUDITING ANNUAL AUDIT PLAN

**BACKGROUND**

According to Board Policy 1.D., Part 6, the Office Internal Auditing must submit an annual Audit Plan to the Audit Committee. The fiscal year 2013 audit plan is attached.

**COMMITTEE ACTION:**

On June 19, 2012, the Audit Committee reviewed the Fiscal Year 2013 Internal audit plan and approved the following motion:

**RECOMMENDED MOTION:**

The Board of Trustees approves the Office of Internal Auditing annual audit plan for fiscal year 2013.

*Date Presented to the Board of Trustees: June 20, 2012*

**Minnesota State Colleges and Universities**  
**Office of Internal Auditing**  
**Fiscal Year 2013 Annual Audit Plan**

This document outlines the Office of Internal Auditing annual audit plan for fiscal year 2013. It includes all internal and external audit activities planned for the ensuing fiscal year, as required by Board Policy 1D.1, Part 6. This document contains four sections and one appendix:

**Section I** – Audit risk assessment results

**Section II** - Internal Auditing technical resources

**Section III** - Other monitoring activities.

**Section IV** – Administrative activities.

**Section I: Audit Risk Assessment Results**

Professional internal auditing standards require the chief audit executive (CAE) establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organizations goals. Guidance on this standard states that the CAE should prepare the audit plan based on the audit universe, input from senior management and the board, and an assessment of risk and exposures affecting the organization.

When a formal enterprise risk management program exists, internal audit is able to leverage the results to limit additional risk assessment. However, a mature process does not exist within the Minnesota State College and University system. As a result, we conducted an audit risk assessment. This approach took into consideration enterprise risks, financial risks, and information technology risks. We discussed the preliminary results with the Audit Committee at their May 15, 2012 meeting.

**Enterprise Risks**

Chancellor Rosenstone has completed significant work in the past year on strategic risks facing the system. The Chancellor has commented that the strategic framework, approved by the Board of Trustees in January 2012, is a powerful response to the most critical needs facing Minnesota, and that it sets out ways in which the colleges and universities can meet Minnesota’s most critical needs. It was a product of eight months of intensive listening to students, faculty, staff, and community and business leaders across the state and was developed in collaboration with the presidents and cabinet members.

The three commitments of the framework are: to ensure access to an extraordinary education for all Minnesotans; be the partner of choice to meet Minnesota’s workforce and community needs; and deliver to students, employers, communities and taxpayers the highest value/most affordable higher education option.

In April 2012, the presidents and cabinet conducted a brainstorming exercise on risks the system in facing. They came up with more than 60 topics and four common themes emerged:

- **Fiscal concerns** – this has been a recurring theme over the past several years, with the difficult economic times the State of Minnesota and the nation are facing and the resulting decline in state support of higher education.
- **Change resistance and preparation for change** – the projects within the strategic framework, including the growth of the Campus Services Cooperative (COOP), will bring much change to the system, colleges and universities, and individual employee responsibilities. While necessary, it will be important to manage projects and changes to employee positions carefully.
- **Personnel topics** – system leaders were concerned about the ability to retain and recruit qualified employees. Presidents in particular, also discussed, concerns with employee behavior.
- **Safety and security** – system leaders had concerns about the ability to effectively respond to emergencies and keeping students and employees safe.

**Financial Risks**

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

Metric Category	Factors Measured
Audit (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>
Financial Condition (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>
Business Operations (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>
Other (points = 100)	Use of professional judgment to adjust for significant financial risks that were not part of the model.

The above metrics were assigned a point value for determining an overall ranking for each college and university. The table below shows the overall results of the financial risk modeling of the colleges and universities for the past two years. Note that the results varied significantly between institutions.

Risk	Results	Number of Colleges and Universities	
		May 2012	May 2011
High	$\geq 350$	5	10
Medium	$< 350$ and $> 200$	15	17
Low	$< 200$	18	11
Range of Scores		35 - 420	35 - 525

A two year comparison of the results indicated that financial risk has gone down. This is attributable to an overall increase in college and university CFI metrics and a decrease in the number of institutions with net income losses. In addition, two state universities had internal control and compliance audits during the year and an overall decrease in the number of outstanding audit findings.

The May 2012 results identified four universities and one college with high financial risk. 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 institutions have not had a comprehensive internal control and compliance audit in over ten years.

We also assessed financial risk by looking at functional areas. Internal audit and finance division staff considered materiality, transaction volume, complexity, susceptibility to fraud, compliance requirements, and past audit history. We determined the following functional areas to have high risk:

- Banking and cash controls
- Purchasing cards
- Document imaging (an emerging area)
- Tuition and fees
- Financial aid
- Bookstore operations
- Equipment inventory
- Capital project administration
- Employee business expenses
- Student activity funds
- Academic resale activities

A future consideration for looking at financial risk will be the overall change to business processes and utilization of the COOP.

**Information Technology Risks**

Internal audit gathered information from a variety of sources to help identify and assess information technology risks:

- Held discussions with over 20 IT professionals and groups
- Attended annual MnSCU ITS Conference
- Attended bi-weekly CIO meetings and monthly Security Steering Committee meetings
- Reviewed a variety of documents including the IT Service Delivery Strategy, System Policies, Guidelines and Procedures, the 2011 ITS Satisfaction Survey, and past IT audit reports issue by the Legislative Auditors (9)

It was determined that while individual institutions manage their own local area networks and many applications critical to individual institutions, the system office manages mission critical enterprise systems. Every institution relies on these systems for a variety of things including student registration, financial aid, accounting, human resource and payroll transactions, and recording student grades, awards and transcripts. These systems, including Desire to Learn (D2L), the Integrated Student Record System (ISRS), and the Information or Data Warehouse contain large volumes of sensitive data on employees and students. The need for data confidentiality, integrity, and availability is generally high in these enterprise systems.

We also identified one system called ImageNow that is managed by a state university but used by the majority of institutions. The system is used for electronic document imaging, storage and work flow and is used for wide variety of business functions including human resources, financial aid, business office, and registrars. As a result this system may contain large volumes of sensitive data on employees and students. Also, it may be used to route documents for review and authorization. The need for data confidentiality, integrity, and availability is generally high in this system.

## **Section II: Use of Internal Auditing Resources**

For fiscal year 2013, the Office of Internal Auditing has identified the following priorities based on the results of audit risk assessments and available resources. A summary of available technical resource hours is contained in Appendix A.

### **Core Assurance Services:**

- Coordinate financial statement and federal financial assistance audits: Fiscal year 2012 marks the twelfth year that the Minnesota State Colleges and Universities contracted for an external audit of its financial statements. The external audit firm of CliftonLarsonAllen is under contract to provide audit services for the system-wide financial statements, Revenue Fund financial statements, and federal financial assistance. This will be the third year that CliftonLarsonAllen provides these services. In addition, audited financial statements are generated for 13 of the largest institutions in the system.

The Office of Internal Auditing is obligated by the current contract with CliftonLarsonAllen to provide staffing support for the system-wide financial statement and federal financial assistance audits.

- Monitor progress toward implementing audit finding recommendations: It is important that the Board of Trustees, Chancellor, and presidents have confidence that any problems revealed by audits receive appropriate attention. Internal Auditing monitors progress toward implementing all audit finding recommendations. Internal Auditing provides status reports on prior audit findings to presidents in January and June of each year. The Chancellor is informed about any unresolved audit findings as part of the annual presidential performance evaluation process.

- Assist with fraud inquiries and investigations: In these times of great uncertainty and change, it is reasonable to expect an increase in the number of issues that will require inquiries and possibly investigations. Accordingly, the amount of time reserved for this activity has again been increased in this plan.

### **Financial Internal Control and Compliance Audits**

In fiscal year 2011, the Audit Committee undertook a comprehensive evaluation of the audit approach for the Minnesota State Colleges and Universities. One specific area that was included in the review was how to obtain internal control and compliance audit coverage given that a contractual relationship with the Office of the Legislative Auditor ended in fiscal year 2010 that provided much of this past coverage. It was concluded, given limited resources, that coverage be obtained by internal audit doing limited individual institution audits and focusing more heavily on functional areas. We again recommend this type of approach for fiscal year 2013 and the following audits:

- Bemidji State University and Northwest Technical College – Bemidji<sup>1</sup>
- Banking and cash controls
- Document imaging
- Purchasing cards

Due to work within the COOP, we will maintain flexibility in audit resource scheduling over financial internal control and compliance areas. If a particular area is being transformed within the COOP, we will reschedule audit resources to focus on other areas.

### **Capital Construction Audit Pilot**

The Office of Internal Auditing and the Finance division facilities unit plan to contract with an independent public accounting or consulting firm with expertise in construction auditing to perform contract compliance audits for one or more capital construction projects. We received \$50,000 in system office initiative funds for the pilot project.

Internal audit and the facilities unit will monitor the results of the pilot and recommend future steps for construction audits within the system. Depending on the outcome of the pilot, future work could be completed by contracting for construction compliance audits on an ongoing basis within the construction program. Other higher education systems have developed expertise within their internal audit department to complete this type of work.

### **Information Technology Audits**

We recommend the following information technology audits:

- ImageNow – The audit will focus on information security controls and may incorporate other controls such as business continuity and disaster recovery controls.

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<sup>1</sup> Both the university and the college have not had internal control and compliance audit since 1998.

- **ISRS Database Security:** The system office is in the process of implementing a new database technology. As a result the ISRS and Information Warehouse databases will be combined into a single database. This audit will focus on information security controls that protect ISRS data but may incorporate other controls.

The Office of Internal Auditing will use a one-time resource of \$100,000 from salary savings over the past two years to hire consultants to conduct some information technology audit work. We plan to work with the vice chancellor of information technology to identify potential topics. We will need to complete a request for proposal for these services.

### **Study with System-wide Interest**

In past years, Internal Auditing has scheduled a study of a topic of major system-wide interest. Recent studies have focused on undergraduate student credit transfer, auxiliary and supplemental revenues, affiliated foundations and implementation of student success systems.

It is anticipated that the Audit Committee will select the next system-wide study topic in November 2012.

### **Advisory Services**

The Institute of Internal Auditing allows internal auditors to provide advice and guidance to management through consulting or advisory services. These services can be invaluable to management when transforming an area to help ensure that appropriate risks and controls are built in up front rather than waiting until an assurance service engagement. In providing these services, it is important that management is responsible for decisions or actions that are taken as a result of the advice or guidance provided.

Specific areas that the Office of Internal Auditing plans to be actively engaged from an advisory services function are:

- Campus Services Cooperative projects, and
- Textbook study work group

In addition, the Office of Internal Auditing provides ongoing professional advice to colleges and universities and the system office.

## **Section III: Monitoring Other External Audits, Evaluations, and Reviews**

In addition to the audit activities discussed in the previous sections, a variety of other external audits, evaluations, and reviews occur. Accordingly, Internal Auditing will monitor the results from the following activities and recommend corrective actions to the Chancellor, presidents, or the Board of Trustees, as warranted.

**Other Required Audits** – Some special grants and other funding sources have certain audit requirements that must be satisfied. State law requires that the Legislative Auditor review any audit contracts prior to their execution. Examples of required audits include:

- Minnesota Job Skills Partnership (MJSP) grants: colleges and universities who receive these grants are required to have an external audit at the close of each grant.
- ISEEK: is sponsored by iSeek Solutions, a Minnesota partnership formed in 1999. The mission of iSeek Solutions is to provide Minnesotans with excellent information resources about careers, education, and jobs. The operations of ISEEK are directed by a joint powers agreement which requires an annual audit. MnSCU is the fiscal agent for ISEEK and has contracted with CliftonLarsonAllen to complete annual audits.
- NCAA financial compliance: Division II institutions are required to have a financial agreed upon procedures review once every three years over athletic activities. All MnSCU state universities, excluding Metropolitan State University, will have this review completed by January 15, 2013.

**Reviews Conducted by State and Federal Student Financial Aid Authorities** – The Minnesota Office of Higher Education conducts periodic reviews of state financial aid programs administered by colleges and universities. Most colleges and universities are examined once every three years as part of that process. Internal Auditing reviews these reports to determine whether findings indicate more systemic issues needing attention. Internal Auditing will summarize and report on the results of these audits in April 2013.

Also, the U.S. Department of Education conducts ad-hoc program reviews and investigations of federal financial aid programs. The department schedules its reviews based on a risk assessment process and does not schedule routine reviews of each college and university. We are not aware of any scheduled reviews for fiscal year 2013.

**Audits of Affiliated and Associated Organizations** – Board Policy 8.3 requires periodic financial audits of affiliated foundations. Also, other related organizations, such as the statewide student associations submit annual audited financial statements to the system office. Internal Auditing will review these audit reports and determine the need to recommend any action by the Chancellor, presidents, or Board of Trustees.

#### **Section IV: Administrative Items**

In addition to conducting and monitoring audits, there are a several administrative activities the Office of Internal Auditing needs to complete during fiscal year 2013. These include:

**External Assessment** - The Institute of Internal Auditors (IIA), the professional organization responsible for promulgating the professional standards for the practice of internal auditing. IIA Standard 1312 – External Assessments requires internal audit organizations to undergo an external quality assessment review at least once every five years. The results of our last external assessment were presented to the Audit Committee in March 2007.



We have delayed the assessment this year because the office has undergone much transition in the audits we are completing. We want to make sure that we have a few audits for an assessment team to review as part of the external assessment. The office plans to contract for an external assessment in the fall of 2012. We believe the feedback and assurance this will provide our office, the Board and senior leadership will be invaluable.

**Replacement of Office of Internal Auditing Administrative Systems** – Applications used for recording and managing staff time, audit findings, and fraud inquires and investigations are outdated and are difficult to maintain. We plan to assess office needs for administrative systems and replace these systems as time permits.

**Office Budget** - The Office of Internal Auditing is included in the same budget process as other divisions in the system office. The table below provides information on planned audit expenditures for the Office of Internal Auditing and financial statement audits for fiscal year 2013. The budget is similar to fiscal year 2012.

**Planned Audit Expenditures for Fiscal Year 2013**

	<b>2013 Planning</b>
<b>Salaries &amp; Benefits</b> (2)	1,149,594
<b>Other</b>	41,030
<b>Total</b>	<b>1,190,624</b>
<b>Contract – CPA</b> (1)	570,684
<b>Contract – Other</b> (3)	\$150,000
<b>Total</b>	<b>720,684</b>
<b>Total Audit Costs</b>	<b><u>1,911,308</u></b>

- (1) Includes financial statement audits for system-wide, revenue fund, 13 colleges and universities and A-133 audits. The cost of these audits is covered by individual colleges and universities and the Finance division.
- (2) The internal audit office manager provides assistance to the board office; salaries have not been adjusted for this assistance.
- (3) Budgeted amounts include contracting for IT and construction auditing services as discussed earlier in the document.

**Audit Committee Meetings**

A tentative schedule for Audit Committee meetings for fiscal year 2013 is contained in Appendix B.

**Appendix A: Available Technical Resources**

The table below provides a summary in the use of technical staff resources over the next three years. The table assumes full staffing; as of June 11, 2012, the office has one vacant position that we are working with human resources staff on filling.

**Summary of Projected Staff Technical Hour Use for Next Three Years**

<b>Audit Area</b>	<b>Estimate 2013</b>	<b>Estimate 2014</b>	<b>Estimate 2015</b>
External Auditor Support (1)	1,200	1,200	-
Follow-up	1,000	1,000	1,000
Fraud Investigations	1,300	1,300	1,300
Financial Internal Control and Compliance	2,600	2,600	3,000
Information Technology Projects	1,200	1,200	1,400
Systemwide Projects	900	900	1,500
Advisory Services	1,200	1,200	1,200
Planning	500	500	500
Other	500	500	500
Unassigned Time	400	400	400
<b>Total</b>	<b>10,700</b>	<b>10,700</b>	<b>10,700</b>

(1) Required by contract to provide staffing resources, plan to eliminate staffing support when contract expires.

**Appendix B**  
**Tentative FY 2013 Audit Committee Meetings - Draft as of June 8, 2012**

Activity	October 2012	Nov 2012	Jan 2013	April 2013	June 2013
<b>Internal Auditing &amp; Audit Committee Administration</b>	<ul style="list-style-type: none"> <li>Review Annual Internal Auditing Report for fiscal year 2012, including status of unresolved audit findings</li> <li>Train Audit Committee members on responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>Review results of external assessment</li> <li>Select system-wide project topic.</li> </ul>		<ul style="list-style-type: none"> <li>1<sup>st</sup> Reading: revision to Board Policy 1C.2 Fraudulent or Other Dishonest Acts</li> </ul>	<ul style="list-style-type: none"> <li>2<sup>nd</sup> Reading: revision to Board Policy 1C.2 Fraudulent or Other Dishonest Acts</li> <li>Review results of audit risk assessment</li> <li>Approve Annual Audit Plan for fiscal year 2014</li> </ul>
<b>External Auditors</b>		<ul style="list-style-type: none"> <li>Review and approve release of audited financial statements</li> </ul>		<ul style="list-style-type: none"> <li>Review results of federal financial aid audits.</li> <li>Review summary results of MN Office of Higher Education audits.</li> </ul>	
<b>Internal Audit Projects</b>	<ul style="list-style-type: none"> <li>Review results of vulnerability management IT audit.</li> </ul>	<ul style="list-style-type: none"> <li>Review results of internal control and compliance audit of banking and cash controls</li> </ul>	<ul style="list-style-type: none"> <li>Review results of internal control and compliance audit of Bemidji State University and Northwest Technical College</li> <li>Review results of IT audit</li> </ul>	<ul style="list-style-type: none"> <li>Review results of IT audit</li> <li>Review results of internal control and compliance audit</li> </ul>	<ul style="list-style-type: none"> <li>Review results of internal control and compliance audit</li> <li>Review results of system-wide audit</li> </ul>
<b>Fraud Topics</b>	<i>The Executive Director discusses incidents with the Audit Committee Chair and determines whether reporting of significant violations to the Board of Trustees is warranted. Reports normally are not discussed at public meetings due to data privacy considerations.</i>				
<b>Time Estimate</b>	1.5 hours	2 hours	1.5 hours	1.5 hours	2 hours

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

**Agenda Item Summary Sheet**

**Committee:** Audit Committee

**Date of Meeting:** June 19, 2012

**Agenda Item:** Review Results of University Personnel and Payroll Internal Control and Compliance Audit

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

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

Review results of the State University Personnel and Payroll Internal Control and Compliance audit conducted by the Office of Internal Auditing.

**Scheduled Presenter(s):**

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

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

- The results of the audit will be presented and discussed at the June 19, 2012 Audit Committee meeting.

**Background Information:**

- In October 2011 the audit committee approved the Fiscal Year 2012 Internal Auditing Annual Audit Plan. As part of that plan, the Office of Internal Auditing conducted an internal control and compliance audit of state university personnel and payroll.

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

<b>BOARD ACTION</b>
REVIEW RESULTS OF UNIVERSITY PERSONNEL AND PAYROLL INTERNAL CONTROL AND COMPLIANCE AUDIT

The results of the State University Personnel and Payroll Internal Control and Compliance audit will be released at the June 19, 2012 Audit Committee meeting. Copies of the final report will be available at the meeting. Additional copies of the final report may be obtained from the Office of Internal Auditing web site: [www.internalauditing.mnscu.edu](http://www.internalauditing.mnscu.edu) starting on June 19, 2012.

*Date Presented to the Board of Trustee: June 19, 2012*

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

**Agenda Item Summary Sheet**

**Committee:** Audit Committee

**Date of Meeting:** June 19, 2012

**Agenda Item:** Board Committee Goal Update

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

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

Each committee of the Board of Trustees is asked to bring forward a goal that they have selected for further study for fiscal year 2012. The committee will periodically review progress on its goals.

**Scheduled Presenter(s):**

Beth Buse, Executive Director, Office of Internal Auditing

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

- An update on the Audit Committee's goal will be discussed.

**Background Information:**

- The Audit Committee's goal for the year is to research best practices of other audit committees, including audit approaches of other higher education systems as well as private industry.
- The Audit Committee reviewed and discussed the results of research of common audit committee practices at the May 2012 meeting.

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

<b>INFORMATION ITEM</b>
BOARD COMMITTEE GOAL UPDATE

The Audit Committee’s goal for the year is to research best practices of other audit committees, including audit approaches of other higher education systems as well as private industry. The Audit Committee discussed the results of research completed at its May 2012 meeting. The PowerPoint presentation discussed in May is attached.

The Audit Committee plans to continue the discussion at the June committee meeting and determine if any specific recommendations will be made for the future.

*Date Presented to the Board of Trustee: June 19, 2012*



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## Minnesota State Colleges and Universities **Audit Committee Practices**

**Beth Buse**, Executive Director, Internal Auditing

**May 15, 2012**

The Minnesota State Colleges and Universities system is an Equal Opportunity employer and educator.



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## **Audit Committee Practices**

- **Today's Agenda**
  - Fiscal year 2012 Audit Committee goal
    - Audit committee best practices
    - Benchmarking
    - Useful as a succession planning tool
  - Discuss research completed
    - Professional organizations
    - Industry and non-profit sector
    - Other higher education systems
  - Discuss next steps

Slide 2





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## Audit Committee Practices

- Context
  - Higher education system mission and complexity
  - Division of labor between board committees
  - Responsibility of Audit Committee
  - Resource constraints
    - System office
    - Individual colleges and universities

Slide 3



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## Audit Committee Practices

- Research Methodology
  - Publication and article review
    - Association of Governing Boards of Universities & Colleges
    - Institute of Internal Auditors
    - AICPA
    - National Association of Corporate Directors
    - Audit consulting firms
  - Review of higher education systems
    - University of Minnesota
    - University System of Georgia
    - Tennessee Board of Regents
    - University of Wisconsin System

Slide 4



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## Audit Committee Practices

- Common Audit Committee Topic *(refer to handout)*
  - Financial Reporting
  - External Audit
  - System of Internal Controls
  - Fraud
  - Oversight of Management and Internal Audit
  - Risk Management
  - Compliance

Slide 5



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## Audit Committee Practices

- Higher Education Systems
  - Audit committee structure
  - Meeting frequency and length of meetings
  - Internal audit reporting

Slide 6



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## Audit Committee Practices

- Protiviti: 2012 Audit Committee Mandates  
(for Non-Financial Services Companies)
  - Update risk profile to reflect changing conditions
  - Ensure risk management capabilities are being enhanced as the business environment changes
  - Oversee capabilities of finance and internal audit
  - Continue to watch control environment
  - Focus on financial communications quality
  - Ensure that the implications of changing laws and regulations are effectively understood and managed
  - Understand how new technological developments and trends are impacting the business
  - Assess committee effectiveness

Slide 7



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## Audit Committee Practices

- KPMG: 2012 Top Concerns for Audit Committees
  - Governance processes, controls & risk management
  - IT risk & emerging technologies
  - Uncertainty (economic, political, social)
  - Information privacy/security and cybersecurity
  - Fostering growth & innovation
  - Board composition / skills / expertise (e.g. IT)
  - Legal / regulatory compliance
  - Leadership / culture / tone at the top

Slide 8



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## Audit Committee Practices

- Next Steps
  - Additional research requests
  - Recommendation(s) for future Audit Committee

Slide 9