

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: October 17, 2012

Agenda Item: Review Annual Internal Auditing Report for FY2012.

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

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

Board Policy 1D requires an annual report from the Office of Internal Auditing.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- Internal Audit activities were consistent with the audit plan for fiscal year 2012.
- An update on the resolution of outstanding audit findings for fiscal year 2012 is incorporated into the annual report.

Background Information:

- The audit plan approved by the Board of Trustees in October 2011 provided the foundation for the internal auditing activities carried out in fiscal year 2012.

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

BOARD INFORMATION

REVIEW ANNUAL INTERNAL AUDITING REPORT FOR FY2012

The annual report for fiscal year 2012 is attached.

Date Presented to the Board of Trustee: October 17, 2012



Minnesota
STATE COLLEGES
& UNIVERSITIES

Internal Auditing Annual Report Fiscal Year 2012

Office of Internal Auditing
Reference Number 2012-10-010

October 9, 2012

October 9, 2012

Members of the Board of Trustees

I am pleased to submit the annual report on the Office of Internal Auditing for fiscal year 2012 as required by Board Policy 1D.1 part 8.

I am proud of the talented and dedicated professional staff members who take great pride in their work. The office conducts audits in accordance with the professional practices of internal auditing.

I wish to reiterate my commitment to managing an office that provides you with credible, professional services. Organizationally, the Office of Internal Auditing is structured to ensure its independence by reporting directly to the Audit Committee. Personally, I take great care to avoid assignments or relationships that would compromise my independence. Accordingly, I pledge to you that I continue to remain independent and objective pursuant to the professional practices of internal auditing in my role as Executive Director of the office.

Thank you for your confidence and support in our work.

Beth Buse, CPA, CIA, CISA
Executive Director

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Summary

The audit plan approved by the Board of Trustees in October 2011 provided the foundation for the internal auditing activities carried out in fiscal year 2012. Some noteworthy activities included:

- **Financial Internal Control and Compliance Audits** – three reports were issued during the year that provides assurance to the board and other stake holders.
 - Southwest Minnesota State University
 - Metropolitan State University – OLA audit
 - State University Personnel and Payroll
- **External Audits** - CliftonLarsonAllen, the principal auditor for the system, and two other audit firms gave unqualified (clean) financial statement audit opinions for the system and 13 colleges and universities for fiscal year 2011. Notably, no material weaknesses or significant deficiencies were reported for the second year in a row.
- **Follow-up** - colleges and universities continued to make significant progress in resolving outstanding audit findings during fiscal year 2012.
- **Inquiries and Investigation** - Internal Auditing continues to spend a significant amount of time in conducting fraud inquires and investigations. Fortunately, there were no significant losses.

*Beth Buse, Executive Director,
had lead responsibilities for this report.*

I. Assurance Services

The Office of Internal Auditing spent the majority of its time working on assurance services which, depending on the scope of the audit, may focus on the quality and reliability of information, legal and policy compliance, and operational efficiency and effectiveness. The following assurance service projects were conducted during fiscal year 2012.

Financial Internal Control and Compliance Audits

Fiscal year 2012 was the first year in implementing a new¹ approach for obtaining financial internal control and compliance audit coverage. The approach contains a combination of stand-alone institution audits as well as functional area audits. The board and other stakeholders primarily rely on audits completed by the Office of Internal Auditing. The following audits were completed and discussed with the Audit Committee:

- **Southwest Minnesota State University**

In January 2012, the Office of Internal Auditing released an internal control and compliance audit of Southwest Minnesota State University. The report is available on internal audit's website at

<http://www.internalauditing.mnscu.edu/reports/2012-01-001-smsu.pdf>.

The audit scope included fiscal years 2010, 2011, 2012, through September 30, 2011. The report concluded that except for some supplemental receipts, the university generally had adequate internal controls. The report also concluded that, for items tested, the university generally complied with MnSCU policies and finance related legal provisions. The report contained eight audit findings.

- **Metropolitan State University - Office of the Legislative Auditor**

At the January 17, 2012, the Office of the Legislative Auditor released its financial audit of Metropolitan State University. The report is available on the OLA's website at

<http://www.auditor.leg.state.mn.us/fad/pdf/fad1201.pdf>.

The audit scope included fiscal years 2009, 2010, and 2011, through March 31, 2011. The report stated that the university generally had adequate internal controls over major financial activities, such as tuition and fees, employee salaries, and operating expenses. However, the report contained 12 audit findings.

- **State University Personnel and Payroll**

In June 2012, the Office of Internal Auditing released an internal control and compliance audit on state university personnel and payroll. The report is available on internal audit's website at

<http://www.internalauditing.mnscu.edu/reports/2012-06-005-supp.pdf>.

¹ The system no longer contracts with the Office of the Legislative Auditor to complete cyclical internal control and compliance audits on the non-financial statement audited colleges. As resources permit the Office of the Legislative Auditor plans to have an audit presence within the system.

The audit scope included fiscal years 2009, 2010, 2011, and 2012 through December 31, 2012 and included all universities except Metropolitan since they had recently had an OLA audit. The report concluded that generally universities had adequate internal controls over processing personnel and payroll transactions and generally complied with MnSCU policies and finance-related legal provisions. The report contained nine findings and two topics for future consideration for system leaders.

Audited Financial Statements

Audits of fiscal year 2011 financial statements marked the eleventh year that the Minnesota State Colleges and Universities contracted for an external audit of its financial statements. The external audit firm of CliftonLarsonAllen (formerly LarsonAllen) provided an unqualified (clean) opinion on the system-wide financial statements in November 2011.

At the system-wide level, the external auditor also did not cite any “material weaknesses” or “significant deficiencies.” in internal controls. The auditing literature considers a “material weakness” to be the most serious type of problem associated with an internal control structure, so the absence of “material weaknesses” is a positive indicator. Less serious, but noteworthy internal control considerations are referred to as “significant deficiencies.”

In addition, audited financial statements were developed for 13 of the largest institutions: the seven state universities and six two-year colleges. The financial statements for all 13 institutions received unqualified audit opinions from the CPA firms that the board appointed for the audits. Notably, all 13 institutions had no “material weaknesses” or “significant deficiencies.” in internal controls. This is a significant accomplishment and was the second year in a row this has occurred.

Follow-up on Prior Audit Findings

The Board of Trustees and Chancellor expect timely resolution of audit findings. Internal Auditing maintains a database for tracking audit findings and monitors the status of audit findings through resolution. Presidents are provided a mid-year and end-of-year follow-up report. Table 1 summarizes fiscal year 2012 activity:

Colleges and universities continued to make significant progress on resolving outstanding audit findings during fiscal year 2012. As of June 30, 2012, there were only 52 unresolved audit findings, of those only two were given unsatisfactory progress. The two findings in unsatisfactory progress are:

- One college as of June 30, 2012 was not current with reconciling its bank account. This finding was classified as ‘important’ and was 90 days past the target implementation date.
- One college as of June 30, 2012 had not been paying all expenses promptly. This finding was classified as “Limited Impact” and was nearly a year past the target implementation date.

**Table 1: College and University Audit Finding Activity Summary
As of June 30, 2012**

	As of June 30, 2012	Previous Year Balances	% Change
Unresolved as of July 1, 2011	42	108	- 61%
Additions – Fiscal Year 2012	154	231	-33%
Resolved – Fiscal Year 2012	(144)	(297)	-52%
Unresolved as of June 30, 2012	52	42	+21%

Status of Unresolved Findings

Satisfactory Progress	50	37	+35%
Unsatisfactory Progress	2	5	-60%

II. Fraud Inquiry and Investigation Support

Internal Auditing assists with conducting fraud inquiries and investigations. When evidence of fraud is identified it must be dealt with appropriately. The results of most fraud inquiries and investigations were reported to affected presidents for action. Board policy requires that only significant violations of board policy or law, be communicated to the Board of Trustees. The Executive Director of Internal Auditing advised the Chair of the Audit Committee about fraud investigations and reported potential fraud incidents to the Legislative Auditor, as required by state law.

Internal Auditing continues to have an increase in the number of fraud incidents reported compared to prior years. Although there were no material losses to the organization, it is important to note that policy 1.C.2 requires an inquiry to determine whether evidence of fraudulent or other dishonest acts is substantiated and merits a fraud investigation or other remedy. Where warranted, a fraud investigation must be completed. As a result of the increase in the number of reported incidents, a significant amount of college and university staff time as well as Internal Auditing staff time was dedicated to completing inquiries and investigations. A summary of the types of incidents commonly reported to Internal Auditing were:

- **Theft of equipment:** includes the theft of laptops, overhead projectors, smart phones, musical instruments, and equipment or inventory from technical college programs.
- **Financial aid fraud:** two year colleges continue to deal with student financial aid fraud cases. Internal Auditing works closely with the Inspector General’s Office of the U.S. Department of Education on these cases.

- **Bank account incidents:** these types of incidents commonly include fraudulent checks being drawn on an account or attempts to gain unauthorized electronic access to an account. We currently have an audit underway to look at banking controls at all colleges and universities.

Internal Auditing assisted with other inquiries and investigations primarily centering on allegations of employee misconduct or misuse of property. Internal Auditing reports internal control issues and recommendations to presidents and other administrators when noted and follows up on the issues.

III. 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 was engaged in advisory services included:

- **Professional advice** - Internal Auditing makes itself available to answer questions on various topics. Common questions pertained to compliance with board policies, system procedures, and best practices.
- **Task forces and other committees** - Internal Auditing representatives also sit on various system task forces and committees, including: Security Steering Committee, Finance User Group, Financial Aid Directors, and Chief Information Officers.
- **Campus Services Cooperative** – Internal Auditing was actively engaged in the planning activities that took place during the fiscal year.

IV. Planning

Internal Auditing completed a three-staged audit risk assessment during fiscal year 2012 that identified enterprise strategic, fiscal, and information technology risk factors. Notably, this year more emphasis was put on gaining an understanding of the information technology environment. The results of the risk assessments were discussed with the Audit Committee in May. In addition, the results were taken into consideration in building the audit plan for fiscal year 2013.

V. Analysis of Staff Hours

The majority of professional staff, audit coordinators, are located regionally throughout the system (*St. Paul, Minneapolis, St. Cloud, Moorhead, and Hibbing*). The audit coordinators serve multiple colleges or universities located in their regions. In March of 2012, we added an

information technology auditor to the staff. The office underwent reorganization in fiscal year 2011 to accommodate this needed addition. The office currently has a vacant position that we are actively working with human resources on the hiring process.

Table 2 provides a summary of how internal auditing staff resources were used during fiscal years 2009 through 2012.

**Table 2: Percentage of Internal Auditing Technical Service Staff² Hours
Fiscal Years 2009 - 2012**

Service	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009
Internal Control and Compliance Audits	32%	3%	14%	3%
Fraud Inquiry and Investigation Support	22%	17%	11%	12%
Audited Financial Statements	14%	27%	23%	16%
Follow-up on Prior Audit Findings	13%	34%	28%	21%
Professional Advice	8%	7%	8%	7%
Planning	6%	6%	0	0
Information Technology Audits	3%	0	0	0
Other Internal Auditing Assurances	2%	6%	7%	6%
System-wide Audits	0	0	9%	22%
Consulting Services	0	0	0	13%

The Future

In June 2012, the Board of Trustees approved an audit plan for fiscal year 2013 that takes into consideration the results of audit risk assessments and available audit resources. Audit plans and other information on Internal Auditing are available at the office website, www.internalauditing.mnscu.edu.

² Excludes executive and deputy director hours.