



**AUDIT COMMITTEE
JUNE 19, 2013
8:00 A.M.**

**MCCORMICK ROOM
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.

- (1) Minutes of April 16, 2013 (pages 1-6)**
- (2) Review results of Bemidji State University & Northwest Technical College Internal Control and Compliance Audit (pages 7-22)
- (3) Review Results of Audit Risk Assessment (pages 23-36)
- (4) Approve Annual Audit Plan for Fiscal Year 2014 (pages 37-53)**

Members

Phil Krinkie, Chair
Ann Anaya, Vice Chair
Brett Anderson
Alfredo Oliveira
Michael Vekich

Bolded items indicate action required.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING MINUTES
April 16, 2013

Audit Committee Members Present: Trustees Philip Krinkie, Chair; Ann Anaya, Brett Anderson, Alfredo Oliveira, and Michael Vekich.

Audit Committee Members Absent: none.

Others Present: Chancellor Steven Rosenstone, Trustee Clarence Hightower, Chair; Trustee Duane Benson, Trustee Alexander Cirillo, Jr., and Trustee Louise Sundin.

The Minnesota State Colleges and Universities Audit Committee held its meeting on April 16, 2013, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Chair Krinkie called the meeting to order at 2:04 p.m. and reviewed the agenda.

1. Approval of the Audit Committee Meeting Minutes

Trustee Krinkie called for a motion to approve the January 15, 2013 Audit Committee meeting minutes. There was no dissent and the motion carried.

Ms. Beth Buse, Executive Director of Internal Auditing, began by giving a brief internal audit update. The State Treasury account balance delayed the finalization of the Audited Financial Statements report by a couple of months. Committee Chair Krinkie had asked for an update on the extra costs that were incurred because of the delay that was imposed on the external auditing firms. Ms. Buse reported that contracts with the external auditors had been amended to include an additional \$40,000 for the delay.

Ms. Buse briefly reviewed the external Quality Assessment report that committee members received in late March. She explained that internal auditing standards require that internal audit divisions undergo an external quality assessment once every five years, and the report meets those requirements. She noted that the external assessment results were favorable. The Office of Internal Auditing generally conforms with auditing standards. There were a few minor continuous improvement opportunities noted, and Ms. Buse stated that she would return to the committee later in the year with some technical changes that were recommended to the audit charter. Trustee Krinkie stated that he had met with the external assessor prior to the review and then again at the exit interview. He thanked Ms. Buse and her staff for their work and for the results of the excellent report.

Finally, Ms. Buse updated the committee on the fiscal year 2013 audit plan. The plan was approved in June 2012. She noted that the office was somewhat behind on the plan but that all approved projects would be underway by the end of the fiscal year and would be concluded in the next fiscal year. Ms. Buse noted that the primary reason for the delays was due to a couple of open positions in the office, but she added that starting that week, the Office of Internal Auditing

would be at full staff. She noted that a number of her staff were present. Trustee Krinkie encouraged the staff to stand and be recognized by the committee.

2. Review Results of Financial Aid Audits

Ms. Buse, introduced Mr. Craig Popenhagen, CliftonLarsonAllen and Mr. Chris Halling, System Director of Financial Aid for the system.

Ms. Buse presented overview material and explained that this was an annual report that was required by federal law and focused on major federal programs. The Office of the Legislative Auditor identified student federal financial aid as the only major federal program for the system in fiscal year 2012. The audit work, which was performed by CliftonLarsonAllen was compiled into a State of Minnesota Single Audit report. Due to the delay that the state experienced in getting their financial statements out, Ms. Buse stated that the final report would likely be issued in May and then sent to the federal government.

Ms. Buse stated that there had been a slight decrease in student financial aid grants, a slight increase in loan dollar amounts, and a decrease in other types of grant programs. She noted that the lower dollar levels were due to the fact that there were no American Recovery and Reinvestment Act (ARRA) funds this year compared to the past two years. Trustee Hightower asked about the trending for federal financial assistance. Mr. Halling explained that in 2010/2011, there were large increases in enrollment, additional ARRA funding, and an increase in the maximum Pell Grant per student. He further explained that in the current year, the increases in funding had flattened out and enrollment was lower. Finally he stated that student loan trends had continually risen.

Trustee Oliveira asked if students were borrowing more because the cost of education was higher or if it was related to personal choices to take more courses than were necessary for their degree plans. Ms. King stated that there was research to support the view that students were borrowing at rates faster than the increase in the cost. The combination of household income changes, family contribution changes, and their own economic status has accelerated loans beyond the rate of growth and tuition costs. Mr. Halling agreed and added that during an economic downturn, there are also students who may be returning for retraining, but are no longer eligible for grant funds because they already have degrees.

Chancellor Rosenstone reminded trustees that the graph indicated total amount of borrowing and that enrollments had surged between 2008-2012. He added that over that same period, tuition as a percent of median family income in the state of Minnesota had remained constant, but the ability of families to contribute to cover the cost, may have declined as a result of the changing economy, and also the number of students who themselves could contribute to the costs declined as a result of the employment rate. He further noted that more students went part time as a result of the financial constraints and as a result of the increasing diverse student population that MnSCU serves, many of whom cannot afford to go full time. Chancellor Rosenstone reminded trustees that those part-time students, who were independent, did not get a share of the state grant program, meaning that dollars that might have been there from a state grant program were not available to them, so they have to go to other sources, like borrowing.

Chancellor Rosenstone stated that of the students who graduated in 2012 with a certificate roughly half of them graduated with no debt. He added that a third of the students who graduated with an associate's degree had no debt, and a quarter of the students who graduated with a baccalaureate degree had no debt. He further added that the median debt for all graduates at the certificate level was about \$3,000, at the associate's level the median debt was about \$8,000, and at the baccalaureate degree level the median debt was about \$18,000.

Chancellor Rosenstone stated that although borrowing had gone up, the level of indebtedness at MnSCU's colleges and universities was nowhere close to the levels being reported in the newspaper. He added that the measures the system had taken in the legislative request to control costs, the investments made toward improving completion rates, which was another way of ensuring affordability, and the steps taken to align the colleges and universities better with high schools around the state, so that more students were getting college credit before they left high school, were all measures that will help with affordability. Finally, he added that the board's position on access to the state grant for working part time students could also have a tremendous impact on reducing the indebtedness of students as they graduate.

Trustee Krinkie asked if it would be possible to have the Chancellor's comments condensed into pocket notes that the trustees could use when discussing the financial aid issue. Chancellor Rosenstone agreed and added that in addition, he would include that of the other higher education alternatives in the state of Minnesota, MnSCU also has the lowest debt of graduating students.

Mr. Popenhagen discussed the results of the audit. He stated that overall it had been a very good audit. They issued a clean opinion on compliance. He reviewed the audit comments and stated they were fairly minor housekeeping findings. Finally, he reported that prior year findings were resolved. Ms. Buse stated that these were fantastic results for the board to receive. She added that the financial aid offices at the colleges and universities had done a great job.

Trustee Krinkie stated that higher enrollments meant more money going through the system, more applications, and more paperwork, so it really speaks to the success of all the staff who were doing an outstanding job.

Mr. Halling added his own acknowledgement of the tremendous work done by the financial aid directors and their staffs. He thanked the presidents and their administrators for making resources available and he acknowledged the assistance from information technology management over the last couple of years to automate some processes that were otherwise risky because of the volume of manual entries. Finally, Mr. Halling acknowledged an aura of helpfulness from one financial office to another. Particularly he recognized Mr. David Vikander, the financial aid director at Southwest Minnesota State University and his staff, who voluntarily stepped in last year with two institutions who were having issues due to staff turnover. Mr. Halling noted that the Campus Service Cooperative made that sort of cooperation possible between colleges and universities.

Trustee Krinkie stated that great audit results don't just happen, it is because of the hard work,

due diligence by everyone on the campuses from the president to the people who are administering the programs. He thanked everyone again for their commitment.

Ms. Buse continued with a brief background on the financial aid work that was done by the Minnesota Office of Higher Education. The work of the Minnesota Office of Higher Education was done at an individual college or university level. She stated that the Office of Internal Auditing did follow-up work on all findings.

3. Review Results of Internal Control and Compliance Audit of Banking Controls

Ms. Buse began by providing background information. The project was approved by the audit committee in the audit plan for fiscal year 2013. It is a horizontal audit, which means that it looks at a specific process across all colleges and universities. The work was led by Ms. Melissa Primus, Audit Project Manager.

Each college and university is responsible for internal controls related to local banking and investment activity. Ms. Buse stated that there were over 130 local bank accounts not including investment accounts. She added that there were over \$1 billion in receipts deposited into local bank accounts before most of it is swept into the state treasury. Ms. Buse noted that in total activity, just under \$2 billion a year flows through local bank accounts.

Ms. King reviewed the organizational structure under statute. The merger statute that established the system back in 1991 gave MnSCU authority to hold receipts out of the state treasury. Other substantial entities in state government have their revenues flowing into the state treasury. Before the merger the state universities had activity that was outside the state treasury, and that relationship persevered in statute when the new entity was organized. She noted that that was unusual in state government, and that was what led to an interest in having the Office of Internal Auditing conduct a review of the internal control and compliance of banking controls. Trustee Krinkie thanked Ms. King for the background information.

Ms. Buse reviewed the objectives, scope and methodology of the audit. Ms. Buse stated that the overall results were that controls were generally adequate and that colleges and universities and the system office generally complied.

Ms. Buse highlighted potential areas of importance over banking controls. Trustee Anaya noted that changeover to wire transfers from traditional check writing transfers creates new and difficult hurdles with regard to fraud and identify theft. She stated that the Minnesota Financial Crimes Taskforce has the ability to give guidance specifically related to internal controls for banks. She stated that some banks are very good at internal controls and access by employees or actual tracking back when fraud was committed, but she cautioned that not all local banks were equipped to deal with what would be coming with regard to the digital age of fraud and identity theft.

Vice Chancellor King thanked Trustee Anaya for her comments. She added that the question about whether the system had become inefficient in its banking practices, in large part because of the burden associated with fraud, was one that would require discussion and thought over the next year.

Trustee Anaya asked if educational loan fraud had been part of the banking controls audit. Ms. Buse stated that fraud had not been within the scope of audit. However, she added that her office was actively engaged in working with the U.S. Department of Education Inspector General's Office. She stated that individual colleges and universities were cooperating and even detecting fraud. But the type of activity, identity theft and education loan fraud, was often part of organized crime, so the Office of Internal Auditing acted as a liaison between the colleges and universities and the USDOE.

Trustee Anderson asked how many independent local banks, outside of the major banks, did the colleges and universities engage. Ms. Buse stated that it would vary. She added that in some cases money was deposited in local community banks because their primary bank did not have a branch in their local communities. In other cases, there might be additional bank accounts at a major bank where a certain aspect of institution funds were kept. Ms. Buse stated that those relationships vary so she could not provide the actual counts on the distinctions between those local community banks versus primary banks. She did note however that only five colleges and universities used community banks for their primary account.

Trustee Benson asked if there were plans for an audit that would look at the investment accounts. Ms. King stated that the footnotes in the annual financial statements contained a risk rating of the investments that were held in local bank accounts. She noted that those ratings referred to controls surrounding the accounting system and employee access and authority reviews. The footnotes addressed the banking relationships and that the investments were allowable under state law, but it did not address the question of investment administration.

Ms. Buse reviewed the other report findings.

Ms. King stated that she liked the horizontal approach to auditing business cycles. She stated that she thought the horizontal approach was a very effective way to leverage limited resources.

Trustee Krinkie agreed and added that the process of these audits were bringing forward a lot of information, and he added that the benefits that the campus cooperative could provide along with the information contained in the audits, could add continuous improvement for the entire system. He expressed his appreciation for the work of all of the people who actually managed the money and made the entries.

Trustee Hightower asked what would happen with the recommendations contained in the report. Ms. Buse stated that her office would continue to track and follow up on the individual recommendations at the colleges and universities. She added that her office would

also work with Vice Chancellor King and her staff to determine an approach to resolve the broader recommendations.

Ms. King added that work had already begun on some of these recommendations and those were noted in her response to the audit. She noted that in some cases, there would need to be conversations at the campus level before there was an understanding of what solution should be instituted. Finally she noted that the legal relationships with the banks would take some time to come to a new model on, but that she planned to roll it into their work plan for the upcoming year.

Trustee Hightower asked if it would be possible to have a categorized list of the recommendations, so that the board would understand which issues they should expect to see coming back before their committees. Ms. King agreed.

Trustee Vekich asked if there was someone who would be looking into the investment piece of the strategy in order to capitalize on some of the opportunities that were noted in some of the recommendations. Ms. King stated that she planned to have conversations within the Chief Financial Officer community. She added that the State Board of Investment might be able to act as an investment manager on behalf of the Minnesota State Colleges and Universities but that would require a statutory amendment to give them that authority.

The meeting adjourned at 3:08 p.m.

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: June 19, 2013

Agenda Item: Review results of Bemidji State University & Northwest Technical College 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 Bemidji State University & Northwest Technical College audit conducted by the Office of Internal Auditing.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- We reviewed internal controls and compliance over selected activities for fiscal years 2011, 2012, and 2013 through December 31, 2012.
- The university and college generally had adequate internal controls. For items tested, the university and college generally complied with MnSCU policies and finance-related legal provisions. We identified six audit findings.

Background Information:

- In June 2012 the audit committee approved the Fiscal Year 2013 Internal Auditing Annual Audit Plan. As part of that plan, the Office of Internal Auditing conducted an internal control and compliance audit of Bemidji State University & Northwest Technical College.

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

BOARD ACTION

REVIEW RESULTS OF BEMIDJI STATE UNIVERSITY & NORTHWEST
TECHNICAL COLLEGE INTERNAL CONTROL AND COMPLIANCE AUDIT

See attached report

Date Presented to the Board of Trustee: June 19, 2013

Bemidji State University & Northwest Technical College

Internal Control and Compliance Audit

Office of Internal Auditing
June 12, 2013



Minnesota
STATE COLLEGES
& UNIVERSITIES



Minnesota
STATE COLLEGES
& UNIVERSITIES

Bemidji State University & Northwest Technical College Internal Control and Compliance Audit

Office of Internal Auditing
Reference Number 2013-06-005

Public Release Date – June 12 2013

Members of the MnSCU Board of Trustees
Chancellor Steven J. Rosenstone
President Richard Hanson

This report presents the results of our selected scope internal control and compliance audit of Bemidji State University & Northwest Technical College for fiscal years 2011, 2012, and 2013 through December 31, 2012. It contains six findings and recommendations to assist university management in improving business processes, controls, and accountability.

We conducted this audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

The results of the audit were discussed with university leadership and staff on May 31, 2013.

We appreciate the excellent cooperation and assistance that we received from university employees.

Audit Scope

We reviewed internal controls and compliance over the following activities for fiscal years 2011, 2012, and 2013 through December 31 2012:

- receipt collections (included tuition and supplemental receipts)
- employee business expense reimbursements
- procurement (included purchasing card activity), disbursement, and equipment inventory
- Northwest Technical College bookstore

Conclusion

The university and college generally had adequate internal controls. For items tested, the university and college generally complied with MnSCU policies and finance-related legal provisions. We identified six audit findings.

Findings

1. The university did not have adequate controls to ensure receipts from several supplemental revenue sources were safeguarded and properly deposited.
2. The university provided student check cashing services, resulting in unnecessary risks.
3. The reconciliation process for tuition waivers did not include all types of tuition waivers and was not performed by an independent person.
4. The university did not have written guidance to help employees determine the reasonableness of clothing purchases for admissions office recruiters.
5. The university athletics department did not have written guidance for student athlete recruitment expenses and it did not comply with some travel and special expense procedures.
6. A complete review and certification of employee's access to the State of Minnesota's accounting system was not performed.

CONTENTS	PAGE
I. Background	2
II. Audit Objectives, Scope, Methodology and Conclusion	3
III. Audit Findings and Recommendations	5
IV. University Response	10

The audit team was led by Melissa Primus and included the following audit staff: Carolyn Gabel, Craig Fautsch, Kim McLaughlin, and Marita Hickman

Section I: Background

Bemidji State University (BSU) and Northwest Technical College (NTC) are located in Bemidji, Minnesota. They are aligned under the leadership of one president, Dr. Richard Hanson. BSU was founded in 1963 while NTC was established in 1965. Current enrollment for both institutions is approximately 6,275 students, employing about 700 faculty and staff. BSU offers nearly 65 baccalaureate majors and 14 graduate degrees, while NTC offers 23 areas of study.

BSU and NTC maintain separate institutional accreditation from the Higher Learning Commission, and are recognized separately by the Minnesota Office of Higher Education and the Federal Department of Education for financial aid funds.

Since fiscal year 2006, the institution prepares combined financial statements that are audited by an external auditing firm. The institution received its seventh consecutive unqualified or “clean” financial statement opinion in 2012. This opinion is issued when the financial statements are free of material misstatements and are represented fairly in accordance with Generally Accepted Accounting Principles.

BSU and NTC’s fiscal year 2012 operating revenues were approximately \$39 million, of which \$23 million was tuition. Its fiscal year 2012 operating expenses were approximately \$74 million, of which \$47 million were salaries and benefits.¹

¹ Bemidji State University and Northwest Technical College *Annual Financial Report For the Years Ended June 30, 2012 and 2011*

Section II: Audit Objectives, Scope, Methodology, and Conclusion

Audit Objectives

The objectives for this audit were to answer the following questions for each activity included in the audit scope:

- Were internal controls adequate to ensure the university and college safeguarded receipts and other assets, properly paid vendors and employees in accordance with management’s authorization, produced reliable financial accounting information, and complied with finance-related legal requirements?
- For the items tested, did the university and college comply with significant finance-related legal requirements over financial activities, including state laws, regulations, contracts, and applicable policies and procedures?

Audit Scope

Our audit reviewed the following activities for fiscal years 2011, 2012, and 2013 through December 31, 2012.

- Receipt collections
 - tuition, fees, room and board
 - other supplemental receipts – sales and services
- Employee business expense reimbursements
- Procurement (included purchasing card activity), disbursement, and equipment inventory
 - operating and administrative expenses
 - equipment expenses
- Northwest Technical College bookstore
 - receipt controls
 - inventory controls

Audit Methodology

We interviewed university and college staff and reviewed relevant documentation, including policies, procedures, or guidelines, and internal control documentation prepared for financial statement purposes to gain an understanding of the institution’s controls related to the financial operations in our scope. We considered risks of fraud and errors, and potential noncompliance with finance-related legal requirements. We analyzed accounting and purchasing card data to identify unusual transactions or significant changes in financial operations. We reviewed security access over the accounting systems to identify the transactions staff can initiate, approve, or process to determine whether access is based on need, and duties are adequately separated. In addition, we selected a sample of transactions and reviewed supporting documentation to test whether the institution’s controls were effective, and if the transactions complied with laws, regulations, policies, and contract provisions.

Audit Conclusion

The university and college generally had adequate internal controls to ensure it safeguarded receipts and other assets, properly paid vendors and employees in accordance with management’s authorization, produced reliable financial accounting information, and complied with finance-related legal requirements. However, we identified control weaknesses over supplemental receipts, purchasing cards, and employee business expenses as discussed in the following findings and recommendations.

For items tested, the university and college generally complied with MnSCU policies and finance-related legal provisions. However, it did not comply with some MnSCU requirements as discussed in the following findings and recommendations.

Section III – Audit Findings and Recommendations

Receipt Collections

1. The university did not have adequate controls to ensure receipts from several supplemental revenue sources were safeguarded and properly deposited.

The university did not have adequate controls to ensure receipts from supplemental revenue sources were safeguarded and properly deposited. The university business office collects many receipts, such as tuition and fees, directly from students. Other supplemental receipts including athletic events and concessions, student union sales, parking fines, recreation center facilities and equipment rental fees are collected elsewhere at the university and delivered to the business office to be deposited. We found the following weaknesses when reviewing these supplemental revenue processes.

- The university's student union reconciliation process did not accurately reconcile actual receipts to what should have been collected for some supplemental revenue sources. For example, pre-numbered receipts or other tools were not used to determine how many tickets or other items of value, such as stamps, were sold compared to actual receipts. Further, reconciliations were not always performed timely.
- The university defined and implemented procedures at its student union such as daily deposit reconciliation, entry of transactions into the accounting system, and identifying a back-up employee to perform these tasks when key personnel are absent. However, when key personnel were absent, we noted the backup employee did not prepare a complete, accurate reconciliation, or enter the deposit transactions into the accounting system, instead, shifting responsibility to the business office.
- The university did not deposit receipts in a timely manner. For example, receipts from 2 of 10 athletic events tested were deposited 1 day after the event, ranging from approximately \$6,000 to \$7,500. In addition, 1 of 8 Hobson Memorial Union deposits tested, approximately \$7,500, was deposited 7 days late. MnSCU Policy 7.5 Financial Institutions and Investments, and university procedure require daily deposits of receipts totaling \$250 or more. Receipts collected on the weekend should be delivered to the business office and deposited the next business day.
- Bags containing starting cash, tickets, and receipts from over the counter ticket sales for athletic events were not adequately safeguarded. Multiple bags used for various events were retained in a single cabinet accessible by several people including student or employee ticket sellers. Receipts should be delivered to the business office and placed in the drop box for deposit.

Without adequate controls over supplemental receipts the university is at increased risk that receipts may be lost or stolen.

Recommendation

- *The university should identify all supplemental revenue sources, assess the adequacy of controls, and implement controls to ensure receipts are properly*

safeguarded and deposited. Also, receipt processes and controls should be documented. Controls should ensure:

- deposits are complete and reconcile to supporting documentation*
- receipts are deposited timely*
- receipts are physically secured*
- backup personnel are trained to perform defined procedures, including daily deposit reconciliations and entry of transactions into the accounting system.*

2. The university provided student check cashing services resulting in unnecessary risks.

Several years ago, the university began providing a free check cashing service in its student union to allow students to cash student payroll and other checks. Since that time, the number of university issued checks to students has decreased as electronic direct deposits have been used. Also, ATM machines are located throughout campus, and a credit union leases space in the student union to provide banking services to students and staff. However, the university continued to provide the check cashing service to students. Along with staff time to provide the service, the university may incur losses when checks are returned as non-sufficient funds.

Recommendation

- *The university should evaluate whether there is an ongoing need to provide students with check cashing services.*

3. The reconciliation process for tuition waivers did not include all types of tuition waivers and was not performed by an independent person.

The university performed a reconciliation of employee tuition waivers; however, the reconciliation is not performed by a person independent of the process. In addition, the reconciliation did not include employee tuition waivers paid to other institutions or student tuition waivers, such as student tuition waived for significant personal circumstances or college error. Tuition waivers are highly sensitive transactions because they reduce or eliminate the amount owed to the institution and must be manually calculated and entered to a student's account. An independent reconciliation can help to identify errors or irregularities and ensure waivers have been properly authorized.

During our review of employee tuition waivers, we noted two payments made by the university to another institution that should have been paid by Northwest Technical College. In addition, we noted four student tuition waivers were entered to students' accounts using an incorrect waiver reason code. Data input errors could affect management and financial reports.

Recommendations

- *The institutions should develop and implement a more robust, independent reconciliation process to verify the accuracy of employee tuition waivers entered at the university and college, including those paid to other institutions. In addition, they should perform a reconciliation of student tuition waivers to ensure there is documentation to support approval and dollar amounts.*
- *The university should determine the total amount of employee waivers it paid other institutions in error and obtain reimbursement from Northwest Technical College.*

Purchasing Cards

4. The university did not have written guidance to help employees determine the reasonableness of clothing purchases for admissions office recruiters.

The university does not have written guidance to help determine the reasonableness of clothing purchased for admissions office recruiting staff. Our audit identified several items of clothing purchased for admissions office recruitment staff such as men’s sweaters and dress shirts, women’s blouses and sweaters, scarves, fleece jackets, and a coat. Without written guidance, it is difficult for those involved in the purchasing process to determine if items are reasonable or allowable. In addition, it is not clear for whom clothing may be purchased, how many items or how much can be spent on each employee, or procedures for ensuring clothing purchases are included as employee compensation. As a result, the university and its employees may be at risk of violating Minnesota statutes or MnSCU policies and procedures related to employee code of conduct and ethics.

Recommendation

- *The university should consider developing written guidance related to clothing purchased for staff. The guidance should include and address:*
 - *employees or positions that receive clothing,*
 - *quantity of clothing items allowed per employee per year,*
 - *clothing parameters, such as allowable items and color restrictions,*
and
 - *process for reporting clothing purchases as compensation for employees to the payroll office.*

Employee Business Expense Reimbursements

5. The university athletics department did not have written guidance for student athlete recruitment expenses and it did not comply with some travel and special expense procedures.

The university athletics department did not have written guidance to define dollar limits and allowable expenses for athletic recruitment expenses (i.e. student visits). During our audit, we noted the university reimbursed employees for meal and hotel expenses related to recruitment of student athletes. The university should have formal guidance to ensure expenses are reasonable and allowable, and determine whether they want employee's using their personal credit cards to pay for recruitment-related expenses.

In addition, the university athletics department did not follow guidance related to personal use of university vehicles. The university athletics department was provided two vehicles by local automobile dealerships to be used by head coaches for the athletic programs in exchange for athletic tickets or advertising. When vehicles are used for personal use, such as commuting to and from home and work, the personal use must be reported to the payroll office as compensation. Personal use of the dealership vehicles was not tracked or reported to the university payroll office as compensation. In addition, when other employees used the vehicles for business trips, they received reimbursement for gasoline purchased during the trips. Reimbursement for gasoline purchases is typically a risky transaction because reimbursement generally lacks controls that vehicle fleet cards have in place. Vehicle fleet cards are assigned to a specific vehicle; therefore, gasoline purchases can be compared to vehicle usage to ensure reasonableness.

Finally, the athletics department did not comply with special expense and travel procedures related to international travel. MnSCU Procedure 5.19.3 Travel Management requires pre-approval of international travel and MnSCU Procedure 5.20.1 Special Expenses requires pre-approval for expenses such as employee meal or hotel expenses when an employee is not in travel status. Our audit found that pre-approval was not obtained for meal and hotel reimbursements when an employee was not in travel status; these expenses were related to recruitment of student athletes. In addition, we noted that pre-approval by the President was not obtained for international travel expenses for recruitment of student athletes.

Recommendations

- *The university should develop written guidance to clarify allowable athlete recruiting expenses and dollar limitations. When developing guidance, the university should consider NCAA requirements.*
- *The university should consider utilizing purchasing cards to pay for meal and hotel expenses for recruitment of student athletes rather than employee expense reimbursement.*
- *The university should develop procedures to ensure personal use of university vehicles is reported as employee compensation to the payroll office.*

- *The university should obtain and utilize a vehicle fleet card for gasoline for all university vehicles.*
- *The university should ensure it obtains pre-approval for special expenses and international travel as required by MnSCU Procedure.*

System Security Access

6. A complete review and certification of employee's access to the State of Minnesota's accounting system was not performed.

A complete review of employee's access to the state's accounting system was not performed as part of the January 2013 required recertification process. The MnSCU system office worked closely with individual institutions to review and remove, when possible, employee's incompatible access. However, each college and university did not review other employee's access when an incompatibility did not exist. During our review of BSU and NTC employee access, we identified two individuals with access that did not work for the university or college and did not need access.

The State of Minnesota requires state agencies and MnSCU to annually review and recertify employee's access to the state's accounting system. The purpose of this recertification is to ensure employees' access is limited to what is needed to complete their job responsibilities, and access is removed when someone leaves the organization.

The state of Minnesota implemented a new accounting system in 2011. Similar to the old system, the new accounting system has the ability to generate reports showing the security roles assigned to each employee. However, the report cannot be filtered on individual colleges and universities as could be done with the prior accounting system. As a result, the security report for MnSCU combines all 31 colleges and universities into the same report making it difficult to work with.

Recommendations

- *The system office should work with Minnesota Management & Budget to get the security report modified so it can be generated separately for each college and university.*
- *Until security reports can be generated for individual colleges and universities, the system office should develop an alternative way to provide the information needed for each college and university to perform a complete review and recertify their employee's access.*



OFFICE OF THE PRESIDENT

218-755-2011 / FAX 218-755-2749 / president@bemidjistate.edu

June 5, 2013

Minnesota State Colleges and Universities
Members of the Board of Trustees
Chancellor Steven J. Rosenstone
Ms. Beth Buse, Executive Director Internal Auditing
30 7th St. E., Suite 350
St. Paul, MN 55101-7804

Dear Chancellor Rosenstone, Trustees and Ms. Buse:

Thank you for the opportunity to review and provide responses to the results of the Bemidji State University (BSU) & Northwest Technical College (NTC) Internal Control and Compliance Audit that was conducted for the time period covering fiscal years 2011, 2012, and 2013 through December 31, 2012.

We are pleased that the overall conclusion of the audit was that the university and college had adequate internal controls. Since we had not had an audit of this type since 1999, it was positive to see that the overall conclusion had not changed after the many internal and external changes that occurred over the past decade or so. We welcome the opportunity to improve operations based on the findings noted in the audit. A process like this one gives us an opportunity to assess areas where compliance can be improved and a clear benchmark to strengthen accountability at BSU and NTC in financial operations.

BSU and NTC are appreciative of the professionalism shown by the Office of Internal Auditing in working with us to review our financial operations.

Listed below are our responses with our plan to resolve the findings:

Finding 1:

The university did not have adequate controls to ensure receipts from several supplemental revenue sources were safeguarded and properly deposited.

Bemidji State University agrees with this finding. Management will continue to work with all areas that have supplemental revenue. In the fourth quarter of 2012, clearer procedures on cash handling were communicated to the campus. We will build upon this work to reinforce the



importance of having consistent business practices that provide adequate controls and comply with state and MnSCU policies. This is a challenging area in a decentralized environment so it will be important to hold areas that have supplemental revenue accountable to following correct procedures.

The business office will work closely with the Director of the Hobson Memorial Student Union to ensure that clear and consistent procedures are implemented for their daily deposits and reconciliations. Training backup personnel to perform these duties will also occur as part of this process. A standard reconciliation form will also be implemented so we can ensure there is sufficient supporting documentation with all deposits.

At BSU, we will also install additional locked cabinets so that can improve the safeguarding and segregate bags with starting cash and the resulting receipts. Each individual activity would then only have access to their cash bags for an event, which will clearly identify the responsible party.

Finding 2:

The university provides its students with check cashing services, resulting in unnecessary risks.

Bemidji State University agrees with this finding. As of July 1, 2013; the university will eliminate this service. With the addition of a credit union in the student union, it is likely it is no longer necessary to provide this service. Eliminating the service will also assist with improving the daily deposit reconciliation in the student union.

Finding 3:

The reconciliation process for tuition waivers did not include all types of tuition waivers and was not performed by an independent person.

Bemidji State University and Northwest Technical College agrees with this finding. We have started to implement a more systematic procedure in processing tuition waivers. As a first step, a formal document has been created that clearly identifies the ISRS waiver codes to be used for BSU and NTC as well as which position in business services is allowed to use a particular waiver code.

Effective summer session 2013, BSU and NTC will also implement a new reconciliation process for all tuition waivers. The process will be conducted through the office of the accounting services supervisor senior in business services and her staff. This office is independent of the accounts receivable office so it has no role in processing tuition waivers. Part of the reconciliation process will also include ensuring there is sufficient rationale and documentation to support the tuition waiver.

BSU also received reimbursement from NTC on May 20, 2013 for \$3,408.50 to correct the error made of making two payments to other MnSCU two year institutions from BSU, instead of NTC.

Finding 4:

The university did not have guidance to help employees determine the reasonableness of clothing purchases for admission office recruiters.

Bemidji State University agrees with this finding. The vice president for finance and administration will work with the associate vice president for admissions and enrollment along with other administrators to develop written guidance related to clothing purchased for university and college employees. The guidelines will include the positions that receive clothing, quantity of clothing items allowed per employee per year, clothing parameters (allowable items and colors), and delineating a process for reporting clothing purchases as compensation to the payroll office.

BSU does not believe that our employees have been unreasonable in the quantity or selection of clothing that is needed as part of their position in the past, but believes written guidelines will be helpful in ensuring consistency and compliance with MnSCU policies and procedures.

Finding 5:

The university athletics department did not have written guidance for student athlete recruitment expenses and it did not comply with some travel and special expense procedures.

Bemidji State University agrees with this finding. The director of athletics and the vice president for finance and administration will work together to put new procedures and guidelines in place for fall semester 2013 to address the issues identified.

Written guidelines will be developed to clarify the university policy on recruiting expenses and the process that is required for coaches to pay for those expenses. The university is in compliance with the NCAA regulations with recruiting expenses, but it will reduce risk if we are more transparent and specific in defining what is allowable and reasonable.

The practice of using vehicles provided by local automobile dealerships will be evaluated. If this practice continues, the university will develop procedures to ensure that personal usage of these vehicles will be reported to the payroll office as compensation. Travel logs and vehicle fleet cards for gasoline will also be assigned to these vehicles.

Additional training will be done with the athletic staff to ensure that pre-approval for special expenses and international travel is done before the travel or activity occurs. Since BSU does a fair amount of recruiting in Ontario and Manitoba, international travel happens on a regular basis with some of our programs so we will look at blanket approvals for some of the shorter and common destinations in those provinces.

Finding 6:

A complete review and certification of employee's access to the State of Minnesota's accounting system was not performed.

Bemidji State University and Northwest Technical College's business manager will work with the system office to help identify an alternate way to provide the information needed to conduct a complete review and recertification of BSU and NTC's employee's access to the state accounting system. It is our understanding that the system office will be working with the Minnesota Management & Budget to modify the security reports so that individual college and university reports can be separately generated.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Hanson", with a long horizontal flourish extending to the right.

Richard A. Hanson, Ph.D.
President

cc: Mr. William Maki, Vice President for Finance and Administration
Ms. Laura King, Vice Chancellor for Finance and Administration
Ms. Diane Illies, Business Manager

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: June 19, 2013

Agenda Item: Review Results of Audit Risk Assessment, Including Information Technology Audit

- 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 2013, the Board of Trustees will be asked to approve the fiscal year 2014 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

Outline of Key Points/Policy Issues:

- A three-staged risk assessment was utilized to identify enterprise, financial, and information technology risks to consider in determining audit priorities for fiscal year 2014.

Background Information:

- 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.

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

INFORMATION ITEM
REVIEW RESULTS OF AUDIT RISK ASSESSMENT, INCLUDING INFORMATION TECHNOLOGY AUDIT

A three-staged risk assessment identified enterprise, financial, and information technology risk factors. The attached PowerPoint presentation documents the results of this work.

Date Presented to the Board of Trustee: June 19, 2013

Minnesota State Colleges and Universities

Fiscal Year 2014

Audit Risk Assessment Results



Beth Buse, Executive Director, Internal Auditing

Eric Wion, Deputy Director, Internal Auditing

June 19, 2013

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

Overview

- Internal auditing standards require that the audit plan be based on a documented risk assessment. The assessment must:
 - Consider input of senior management and the board
 - Take into account the organizations risk management framework
- Audit risk assessment methodology
 - Discussions with leadership
 - Review of Enterprise Risk Management study session results and discussion
 - Review of higher education thought leadership on risks



Audit Risk Assessment



Focus Areas

Strategic Risks



Strategic Risks

- Strategic Framework – adopted by board in January 2012
- Strategic Workgroups (Future of Higher Education, System of the Future, Workforce of the Future)
 - Draft strategies and recommendations to be presented in June 2013
 - Final report planned for fall 2013
 - Results could impact future internal audit projects
- Focus of May 2013 Enterprise Risk Management Study Session



5

Operational Risks



Operational Risks:

Common Themes

- **Human resources**
 - Recruiting and retaining qualified employees
 - Leadership transitions
 - Employee conduct
- **Facilities - Safety and security**
 - Keeping employees and students safe
 - Ability to effectively respond to emergencies
- **Regulatory Compliance**
 - Clery Act - Title IX
 - ADA - Record Retention
 - PCI



7

Operational Risks:

Common Themes

- **Technology**
 - IT security posture of colleges and universities
 - ISRS concerns
- **Academic**
 - International studies programs
 - DARS implementation
- **Other**
 - System branding
 - Campus Service Cooperative
 - Clarity of roles and responsibilities of system office



8

Financial Risks



Financial Risks: Institution

Metrics Used

Metric Category	Factors Measured
Audit (points = 350)	<ul style="list-style-type: none"> • Time since last internal control and compliance audit and the volume of findings • Whether the institution has an annual financial statement audit and the volume of findings from the last audit • Number of outstanding unsatisfactory audit findings
Financial Condition (points = 300)	<ul style="list-style-type: none"> • Operating gains or the size of losses • Composite Financial Index (CFI) • Overall materiality of financial transactions
Business Operations (points = 200)	<ul style="list-style-type: none"> • Change or loss in key personnel, knowledge, or skills • Diversity or complexity of operations • Number of incompatible security access rights
Other (points = 100)	Use of professional judgment to make or adjust for significant financial risks at a specific institution.

Total possible points = 950



Financial Risks: Institution

Overall Results

Risk	Results	Number of Colleges and Universities	
		May 2013	May 2012
High	≥ 350	7	5
Medium	< 350 and ≥ 200	15	15
Low	< 200	16	18
Range of Scores		45 - 410	35 - 420

* Total includes accredited colleges and universities and the system office



11

Financial Risks: Institution

Two Year Comparison

- Overall slight increase in financial risk
- Financial condition metrics
 - 15 institutions increased CFI
 - 22 institutions decreased CFI
 - # of institutions with net loss increased from 4 to 12
- Audit metrics improvements
 - One state university and one technical college had an internal control and compliance audit
 - Decrease in unsatisfactory audit findings



12

Financial Risks: Institution

Institutions with High Financial Risk

1. Southwest Minnesota State University
2. Winona State University
3. Minnesota State University Moorhead
4. Minneapolis Community & Technical College
5. Hennepin Technical College
6. Minnesota State University, Mankato
7. Dakota County Technical College

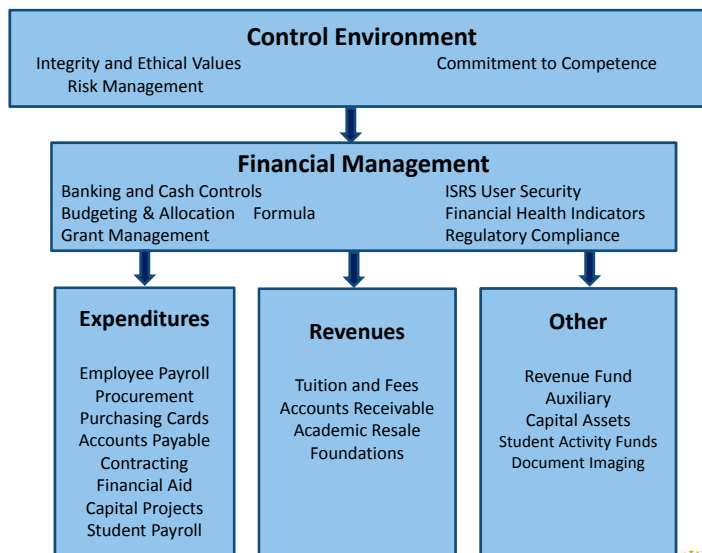
Contributing Factors

- Over ten years since last comprehensive internal control & compliance audit
- Material financial activity
- Complex operations
- Large number of ISRS users with incompatible security access



13

Financial Risks: Functional Areas



Financial Risks: Functional Areas

Risk Assessment

- Internal Audit and Finance staff assessed risk
- Risk considerations included
 - Materiality
 - Transaction volume and complexity
 - Susceptibility to Fraud
 - Compliance requirements
 - Past audit history
- Individual High Risk Areas
 - ✓ Grant Management
 - ✓ Employee business expense
 - ✓ Tuition and fees
 - ✓ Financial Aid
 - ✓ Bookstore Operations
 - ✓ Equipment Inventory
 - ✓ Student Activity Funds
 - ✓ Academic Resale Activities
 - ✓ Capital Project Administration
 - ✓ Banking and cash controls
 - ✓ Purchasing cards



15

Information Technology (IT) Risks

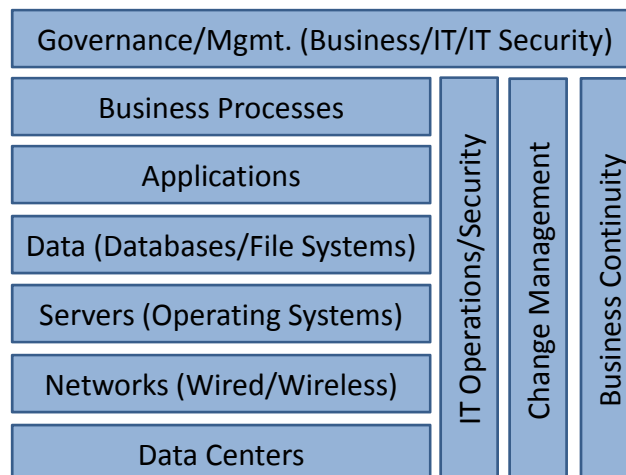


Broad Categories of Risk

- **Confidentiality** – Private or not public data or system-reported information is protected from unauthorized disclosure or use
- **Integrity** – Data and system-reported information is complete and accurate
- **Availability** – Computer systems and data will be accessible (“up-and-running”) when needed



Layers of Risks/Controls



MnSCU Computing Environment

- System office manages wide area network and mission critical enterprise technologies
 - Learning Management System (LMS)
 - Enterprise Resource Planning (ERP) system supports business functions including accounting, human resources, payroll, student registration, grades, transcripts and financial aid
 - Data Warehouse
 - Vulnerability Management System (VMS)
 - Identity and Access Management (IAM) System
- Each college and university manages own data center(s), local area networks and other institution-specific info. systems



Internal Audit - IT Risk Identification

- Discussions with IT professionals at the system office and some colleges and universities
- Attended annual MnSCU ITS conference
- Attended bi-weekly CIO meetings and monthly Security Steering Committee meetings
- Reviewed various documents
 - *IT Service Delivery Strategy* document
 - System Policies, Guidelines and Procedures
- Auditor brainstorming and input



Audit - System/Data Classification & Prioritization

Confidentiality	High	System contains sensitive or private data
	Medium	System contains data of unknown classification
	Low	System does not contain sensitive or private data
Integrity	High	System collects, transmits, processes or stores important data that may be used to make significant decisions
	Medium	Data is important to the business function or mission
	Low	Data is not important to the business function or mission
Availability	High	System must be available at all times
	Medium	System can experience some down time or limited availability outside of normal business hours
	Low	System can experience extended downtime or no availability required outside of normal business hours
Accessibility	High	System accessible via the Internet or a broad audience such as any MnSCU network/computer
	Medium	System with limited local network connectivity or select MnSCU networks and computers
	Low	Standalone system with limited or no network connectivity



IT Risk Areas

- Enterprise Systems (LMS, ERP, Warehouse, VMS, IAM)
 - Data Confidentiality (High)
 - Business data (Student, employee, and banking)
 - Security Data
 - Data Integrity (High/Medium)
 - Financial data, hr/payroll data, financial aid data, student transcripts, grades & awards
 - System and Data Availability (High/Medium)
 - Accessibility (High/Medium)



IT Risk Areas

- Institution-Specific Systems
 - Difficult for Internal Audit to determine
 - What we do know about Institution IT
 - Each responsible for managing/securing own networks, computers, and applications
 - Commercial and custom applications are used
 - Many copy ISRS data and store it in databases
 - Employees and students access enterprise systems
 - Each have point-of-sale systems and process credit card transactions



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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: June 19, 2013

Agenda Item: Approval of FY 2014 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. Internal auditing standards require that the Board approve the annual plan.

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 2014.
- Internal audit plans to maintain flexibility in the audit plan.
- Plan updates will be brought to the Audit Committee throughout fiscal year 2014.

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

BOARD ACTION
APPROVAL OF FY 2014 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. Internal auditing standards require that the Board approve the annual plan. The fiscal year 2014 audit plan is attached.

COMMITTEE ACTION:

On June 19, 2013, the Audit Committee reviewed the Fiscal Year 2014 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 2014.

Date Presented to the Board of Trustees: June 19, 2013

Minnesota State Colleges and Universities
Office of Internal Auditing
Fiscal Year 2014 Annual Audit Plan

This document outlines the Office of Internal Auditing annual audit plan for fiscal year 2014. 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

The International Standards for the Professional Practice of Internal Auditing state the chief audit executive (CAE) is responsible for developing a risk-based plan to determine the priorities of the internal audit activity, consistent with the organizations goals. The standards state the plan must be based on a documented risk assessment, undertaken at least annually. The risk assessment should take into account the organization’s risk management framework and input from senior management and the board.

An enterprise risk management program was introduced to the Board of Trustees in May 2013. The information presented and discussed was taken into consideration in the audit risk assessment. The risk management framework introduced at the study session categorized risks into two overall classes, strategic and operational.

In determining our audit risk assessment results we utilized this same framework. However, we did complete concentrated work in two operational risk categories, financial and technology.

The methodology for completing the audit risk assessment included; discussions with system leaders at the system office and colleges and universities, involvement in task forces and other systemwide meetings, review of higher education thought leadership on risks and brain storming with internal audit staff.

Results were presented to the Audit Committee at their June 2013 meeting.

Strategic Risks

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.

Three strategic workgroups began work in fiscal year 2013; Future of Higher Education, System of the Future, and Workforce of the Future. The strategies and recommendations from these three workgroups may impact internal audit projects in the coming years.

Operational Risks

Through our discussions and research we summarized common themes of operational risks:

- **Human Resources** – system leaders were concerned about the ability to retain and recruit qualified employees. Presidents in particular, also discussed, concerns with employee behavior. In addition, leaders discussed the number of leadership transitions at both the system office and at colleges and universities.
- **Facilities (Safety and security)** – with recent events on leaders minds, the ability to keep employees and students safe has intensified. In addition, a common discussion point was the ability to effectively respond to emergencies.
- **Regulatory Compliance** – common areas of risk within higher education are compliance over: Cleary Act, American with Disabilities Act (ADA), Payment Card Industry Data Security Standards (PCI), Title IX, and requirements over record retention.
- **Technology** – we did do some specific focus work in this area with technology leaders, there were some two areas that were brought up more commonly among all leaders, including knowing the IT security posture of colleges and universities and concerns about ISRS.
- **Academic** – system leaders wondered about best practices and increases in international studies programs and expressed some concerns about the completeness of the implementation of DARS systemwide.
- **Change Management** – the work of the Campus Services Cooperative will be bringing significant change to the system. Along with this are many questions by leaders and employees across the system.

Several questions and concerns were raised about the clarity of roles and responsibilities of the system office. With the significant reductions in staffing as well as leadership turnover, employees are uncertain what is done and what is not done now.

- **System Branding** – questions were raised at the study session in May about the branding of the system.

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"> • Time since last internal control and compliance audit and the volume of findings • Whether the institution has an annual financial statement audit and the volume of findings from the last audit • Number of outstanding unsatisfactory audit findings
Financial Condition (points = 300)	<ul style="list-style-type: none"> • Operating gains or the size of losses • Composite Financial Index (CFI) • Overall materiality of financial transactions
Business Operations (points = 200)	<ul style="list-style-type: none"> • Change or loss in key personnel, knowledge, or skills • Diversity or complexity of operations • Number of incompatible security access rights
Other (points = 100)	Use of professional judgment to 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 2013	May 2012
High	≥ 350	7	5
Medium	< 350 and > 200	15	15
Low	< 200	16	18
Range of Scores		45 - 410	35 - 420

A two year comparison of the results indicated that financial risk has increased slightly. This is attributable to an overall decrease in college and university CFI metrics and an increase in the number of institutions with net income losses.

The May 2013 results identified four universities and three colleges 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. Most of 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:

- Grant Management
- Employee business expenses
- Tuition and fees
- Financial aid
- Bookstore operations
- Equipment inventory
- Student activity funds
- Academic resale activities
- Capital project administration
- Banking and cash controls
- Purchasing cards

A future consideration for looking at financial risk will be the overall change to business processes and utilization of the Campus Services Cooperative (CSC).

Information Technology Risks

Internal audit gathered information from a variety of sources to help identify and assess information technology risks. We held discussions with IT professionals, attended the annual MnSCU ITS Conference, and periodically attended CIO and Security Steering Committee meetings. We also reviewed a variety of documents including the IT Service Delivery Strategy and MnSCU System policies, procedures, and guidelines.

When considering risks associated with specific technologies, we generally considered the following:

- Confidentiality – Does the technology collect, process, or store large volumes of private or not public data that must be protected from unauthorized disclosure or use?
- Integrity – Does the technology, collect, process, or store large volumes of data that must be complete and accurate because it is used to help make significant business decisions?
- Availability – Does the technology support mission critical functions and need to be accessible (“up-and-running”) or have little to no down time?
- Accessibility – Is the technology accessible from the Internet or very broad audiences?

The system office manages MnSCU’s wide area network and several mission critical enterprise technologies that are used by each college and institution. The need for data confidentiality, integrity, and availability is generally high in the following enterprise technologies:

- The Learning Management System (LMS) for online learning
- The Enterprise Resource Planning (ERP) system that supports business functions including accounting, human resources, payroll, student registration, grades, transcripts and financial aid
- The Data Warehouse used for ad-hoc data analysis and reporting
- The Vulnerability Management System (VMS) for identifying software security vulnerabilities
- The Identity and Access Management (IAM) System for authenticating users access to key systems

It was also determined that the System Office restricts access to the Data Warehouse by only allowing a specific computer or two at each college and institution to access the system. Employees must first access the designated computer before they can subsequently access the Data Warehouse. Each college and university is responsible for properly managing and securing those designated computers. In addition, each college and university manages their own data centers, local area networks, and unique applications.

Section II: Use of Internal Auditing Resources

For fiscal year 2014, 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 2013 marks the thirteenth 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 fourth year that CliftonLarsonAllen provides these services. In addition, audited financial statements are generated for 13 of the largest institutions in the system and for ISEEK.

The Office of Internal Auditing is obligated by the current contract with CliftonLarsonAllen to provide staffing support for the systemwide 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 approximately January and June of each year. The Chancellor is informed about any unsatisfactorily resolved audit findings as part of the annual presidential performance evaluation process.
- Assist with fraud inquiries and investigations: In these times of 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

Fiscal 2014 will be the third year that we have completed financial internal control and compliance audits using a different approach. 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 is 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 2014 and recommend the following audits:

- Minnesota State University Moorhead
- Grant Management

Due to work within the CSC, we will maintain flexibility in audit resource scheduling over financial internal control and compliance areas. We plan to work closely with the CSC as we complete our work and will adjust work accordingly.

Capital Construction Audit Pilot

In fiscal year 2013, the Office of Internal Auditing contracted with an external audit firm with expertise in construction auditing to complete a contract compliance audit on two capital construction projects in coordination with the Finance division facilities unit. We received \$50,000 in system office initiative funds for the pilot project.

This work is currently in progress. Internal audit and the facilities unit have been actively engaged in monitoring the results of the audit firm. A final report for both capital construction projects is expected later this calendar year. The results and an evaluation by internal audit and the facilities unit on recommendations for future audit efforts in this area will be presented by the Audit Committee in fiscal year 2014.

Information Technology Audits

We recommend the following information technology audits:

- Learning Management System (LMS) – The audit will focus on information security controls and may incorporate other controls such as business continuity and disaster recovery controls.
- College and university controls over computers allowed access to the enterprise Data Warehouse: To help limit security risks the System Office only allows a few designated computers on each campus to access the Data Warehouse. This audit will focus on information security controls that protect these computers and may also incorporate other controls such as business continuity and disaster recovery controls.

The Office of Internal Auditing will use a one-time resource of \$100,000 from salary savings over the past few years to hire consultants to conduct some information technology audit work. We plan to work with the interim 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. Past 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 systemwide study topic in November 2013.

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.

One specific area that the Office of Internal Auditing plans to be actively engaged from an advisory services function is with the Campus Services Cooperative.

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.
- Radio Stations: Grants from the Corporation for Public Broadcasting require two institutions obtain a financial statement audit of its radio station.

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 2014.

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 2014.

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 2014. These include:

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 2014. The budget is similar to fiscal year 2013.

Planned Audit Expenditures for Fiscal Year 2014

	Fiscal Year 2014
Salaries & Benefits (2)	1,184,995
Other	48,700
Total	1,233,695
Contract – CPA (1)	578,684
Contract – Other (3)	\$100,000
Total	678,684
Total Audit Costs	<u>1,919,308</u>

- (1) Includes financial statement audits for system-wide, revenue fund, ISEEK, 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 as discussed earlier in the document.

Appendix A: Available Technical Resources

The table below provides a projected summary in the use of technical staff resources over the next three years. The table assumes full staffing.

Summary of Projected Staff Technical Hour Use for Next Three Years

Audit Area	Estimate 2014	Estimate 2015	Estimate 2016
External Auditor Support (1)	1,200	-	-
Follow-up	1,300	1,300	1,300
Fraud Investigations	1,600	1,600	1,600
Financial Internal Control and Compliance	2,200	2,200	2,200
Information Technology Projects	1,200	1,400	1,400
Systemwide Projects	1,200	2,000	2,000
Advisory Services	1,200	1,200	1,200
Planning	500	500	500
Other	500	500	500
Total	10,700	10,700	10,700

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

Minnesota State Colleges and Universities
Fiscal Year 2014 Audit Plan



Beth Buse, Executive Director, Internal Auditing

June 19, 2013

Minnesota State Colleges and Universities

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

Overview

- Summary of external audit activity
- Need to maintain flexibility
 - Limited internal audit resources
 - Strategic framework workgroups' outcomes
 - Progress and work of Campus Services Cooperative (COOP)
- Focus on core and known projects
- Potential projects for future consideration



External Audit Activity

- Financial Statement Audits
 - Systemwide and Revenue Fund
 - 13 colleges and universities
- Financial Aid Audits
- Finalize Capital Construction Audit Pilot
- OLA Audit:
 - General Obligation Bond Proceeds
 - No known college and university specific audits
- Other Required Audits
 - Minnesota Job Skills Partnership grants
 - ISEEK
 - Radio Stations



27

Internal Audit Resources

- As of May 2013, internal audit at full staff complement
- IT Audit: one time use of consultants
- Increased demand for investigative services
- Delays in FY13 Audit Plan
 - Purchasing Card Audit: planning phase
 - IT Audit of ImageNow: planning phase



28

FY14 Audit Projects

- Ongoing Assurance Services
 - Follow-up on outstanding audit findings
 - Support to external auditors
 - Fraud inquiry and investigation work
- Financial Statement Analysis
- Financial Internal Control and Compliance Audits
 - Institution Audits
 - Minnesota State University Moorhead
 - Functional Areas
 - Grant Management



29

FY14 Audit Projects

- Technology Audits
 - LMS (Desire To Learn)
 - College and university controls over computer systems used to access ERP database
- Contracted Project(s)
 - Work with interim Vice Chancellor of Technology to identify topics
 - Potential: System-wide data center analysis



FY14 Audit Projects

- **Advisory Projects**
 - Campus Services Cooperative
 - Professional Advice
- **Information Gathering Projects**
 - Campus Cards
 - HIPAA (Health Insurance Portability and Accountability Act)
 - Identity and Access Management System (IAM) research
- **Administrative Projects**
 - Fraud policy update and review of roles and responsibilities
 - Internal Audit administrative system replacement



31

Future Projects for Consideration

- Clery Act Compliance
- Emergency Operations Planning
- International Studies Program
- PCI compliance



32

Board Action

- The Board of Trustees approves the Office of Internal Auditing annual audit plan for fiscal year 2014.

