

Financial Audits – Reflection and Looking to the Future



Beth Buse, Executive Director, Internal Auditing
Laura King, Vice Chancellor Finance/CFO
Edna Szymanski, President MSU Moorhead
Pat Johns, President Lake Superior College

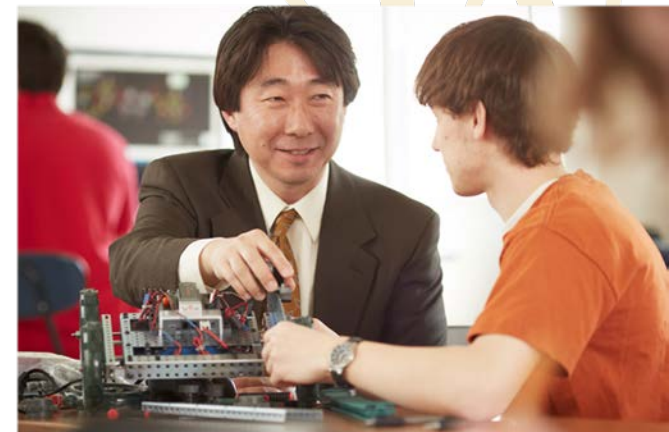
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Minnesota State Colleges and Universities

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

Today's Agenda

- Project Description
- Background
 - Financial Audit Comparison
- Finance – Risk Management
- Research
 - Comparisons to Higher Education Systems
 - Requirements for Accreditation
- Survey of Colleges and Universities
- Recommendations
- Next Steps



Project Description

- In January 2012, the Board of Trustees requested a study **with recommendations** by January 2014, on a financial audit plan for the future.
- The study included:
 - Analyzing the objectives, capacity and cost effectiveness of continuing to conduct 13 individual college and university financial statement audits (*7 universities, Century, Hennepin, Minneapolis, M State, Normandale, and Rochester*).
 - Evaluating the current process for auditing financial internal control and compliance of colleges and universities.
 - Reviewing enterprise risk management strategies for management of financial risk.
 - Researching practices of other higher education systems.
 - Obtaining input from the Board of Trustees and senior management on desired assurances.
 - Consulting with groups impacted by recommendations.

Recommendations

■ Financial Statement Audits:

- Move toward a goal to only complete an audit of the systemwide financial statements and revenue fund.
- Transition period: complete stand-alone audits for fiscal years 2014 - 2016 of four universities (*Bemidji State University, Metropolitan State University, St. Cloud State University, and Winona State University*)
- Enhance the supplement to the annual financial report with additional 'Trends and Highlights' schedules.

■ Internal Control and Compliance Audits

- Increase internal control and compliance audit coverage.
 - Expand audit resources to enable 3-4 additional reviews annually
 - Explore alternative resources and/or methods to gain audit coverage and provide update to the committee by January, 2015
- Continue refinement of the risk assessment tool used for audit planning

■ Future: By January 2017, complete analysis to determine:

- Whether a systemwide audit will meet the needs of all colleges and universities; and the four standalone audits could be discontinued.
- Evaluate, from a risk perspective, the financial internal control and compliance universe to determine appropriate internal audit investment. Include a review of the progress of the Campus Services Cooperative in establishing common business practices and regionalizing some practices and its impact on the risk equation.



Background: Financial Audit Comparison

- Financial Statement
 - Provides an opinion on whether financial statements are presented fairly, in all material respects.
 - Audit focus is primarily on largest financial activities.
 - Materiality varies - institutions between \$500,000 and \$2 million.
 - Audits consider internal controls over financial reporting but do not express an opinion on their effectiveness.
 - Audited financial statements contain a management analysis and detailed information in notes to the statements.
- Internal Control and Compliance
 - Provides for a tone at the top.
 - Greater flexibility in determining audit scope.
 - Provides assurance that internal controls are appropriately designed and working.
 - Provides assurance that MnSCU policies and finance-related legal provisions were complied with.
 - Identifies weaknesses in internal controls.
 - Identifies opportunities to improve business processes.

Financial Risk Management Timeline

1995 - 1999

2000 - 2010

2011 - Today

- No GAAP based financials
- Unreliable reports to external audiences
- No calculation or review of metrics
- Lack of accounting discipline to produce accurate financials
- Data not consistently recorded
- Numerous bank accounts not reconciled
- Poor internal controls

Internal control and compliance audits:
3 year cyclical audits of all institutions by OLA

- FY2000: system balance sheet audit by OLA – qualified opinion
- FY2001: first systemwide financial statement audit - “clean” opinion
- FY2002: began financial statement audits of largest colleges and universities – unqualified opinions
- FY2005: CFI calculated and reviewed for audited institutions
- FY2007: System and HLC begin monitoring CFI on all institutions
- FY2007: regional trends and highlights meetings began
- Improving internal controls

Internal control and compliance audits:
3 year cyclical audits of colleges without financial statement audits by OLA

- Understanding by all institutions of GAAP based financials
- FY2013: unqualified financial statement audits, system, revenue fund, 7 universities, and 6 colleges
- Contract with OLA ends for cyclical internal control college audits
- FY2012: functional internal control and limited institution audits started by Office of Internal Auditing
- FY2013: CSC contracts with IBM to implement shared services initiative

Internal control and compliance audits:
Limited OLA and internal audit coverage of institutions

Finance – Risk Management

- **Current audit approach began with Board of Trustees direction in July 1999**
 - Goal of program was attainment of unqualified opinion on systemwide financial statements
 - Progressive financial statement audit program expansion between 1999 and 2009 (*Since 2003 – audits of 12 largest colleges and universities, representing 60 percent of financial activity*)
 - For past four years, audited financial statements: systemwide, revenue fund, seven universities, and six colleges
 - FY2013 external audit costs were \$580,000; not including internal staff costs
- **Financial management improvements since 1999**
 - Financial health and compliance measures oversight
 - CFI calculation and review
 - Annual review of all colleges and universities (*trends and highlights meetings*)

Finance – Risk Management

(continued)

- **Financial internal control and compliance**
 - Current State – variable business practices at colleges and universities
 - Planned State – Campus Services Cooperative and regional collaborations
 - Align business practices
 - A timeline and scope is not set
 - **Audit Coverage**
 - **Office of the Legislative Auditor:**
 - Three year cyclical college internal control and compliance audits by Legislative Auditor ended in 2010
 - January 2012 – Metropolitan State University
 - Future: limited coverage
 - **Internal Audit: Annual audit plan based on a risk assessment**
 - Institution audits: 2012 – Southwest Minnesota State University, 2013 – Bemidji State University and Northwest Technical College, 2014 - Minnesota State University Moorhead (planned)
 - Functional area audits: 2012 – State University Payroll, 2013 – Banking Controls, 2014 - Purchasing Cards (In progress) and Grant Management (planned)
 - *Audit finding follow-up*

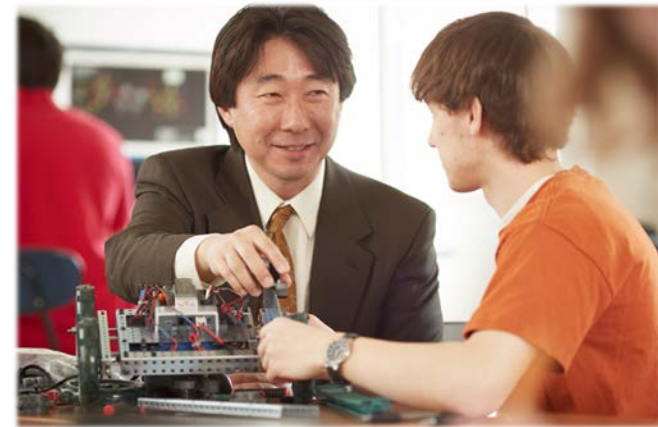
Research

- Higher Education Systems
 - Separate financial statement audits of some colleges and universities is unusual
 - Example systemwide audit only systems:
 - University of MN
 - University of WI system
 - California State University System
 - Difficult to compare internal control and compliance audit approaches
 - Legislative/State Auditor coverage
 - Size and structure of internal audit offices
 - MnSCU staffing in bottom third compared to other systems
- Higher Learning Commission
 - Finance related criteria
 - Supplement should be sufficient



Survey of Colleges and Universities

- Past Surveys
- Current Survey Results
 - Received responses from 25 of 30 presidents
 - Generally in favor of completing a systemwide financial statement audit only; and expanding internal control and compliance reviews for colleges and universities.
 - A few state universities have a specific campus or community need for continuing a standalone financial statement audit
 - Generally support continued production of supplement schedules to the annual systemwide financial statement to assure college and university level schedules for campus use.



Recommendations

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Next Steps

- *January 2014 – Board approval of financial audit plan*
- *February and March 2014 – Complete RFP for external audit services for FY 2014 - 2016*
- *April 2014 – Board approval of external audit firm(s)*
- *January 2017 – Analysis and proposed recommendation for future financial audits*



Recommended Motion

- **RECOMMENDED COMMITTEE ACTION:**
 - The Audit Committee recommends that the Board of Trustees adopt the following motion:
- **RECOMMENDED MOTION**
 - The Board of Trustees endorses the recommendations offered by the Executive Director of Internal Auditing and Vice Chancellor – CFO regarding the future financial audit plan for the system.