AUDIT COMMITTEE
MAY 21, 2014
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 Meeting of April 23, 2014 (pages 1-4)
(2) Review Results of the Internal Control and Compliance Audit of Minnesota State University Moorhead (pages 5-23)
(3) Review Results of Financial Aid Audits (pages 24-34)
(4) Review Results of Audit Risk Assessment (pages 35-50)

<u>Members</u>
Ann Anaya, Chair
Philip Krinkie, Vice Chair
David Paskach
Elise Ristau
Michael Vekich

Bolded items indicate action required.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING MINUTES
April 23, 2014

Audit Committee Members Present: Trustees Ann Anaya, Chair; Phil Krinkie, David Paskach, Elise Ristau, and Michael Vekich.

Audit Committee Members Absent: none.

Others Present: Chancellor Steven Rosenstone, President Pat Johns, Trustees Clarence Hightower, Chair; Duane Benson, Alexander Cirillo, Maria Peluso, and Tom Renier.

The Minnesota State Colleges and Universities Audit Committee held its meeting on April 23, 2014, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Chair Anaya called the meeting to order at 8:12 a.m.

1. **Minutes of January 21, 2013**
   The minutes of the January 21, 2013 Audit Committee were approved as published.

2. **Select External Audit Firm(s) for Systemwide External Auditing Services**
   Ms. Beth Buse, Executive Director of Internal Auditing, stated that Board Policy 1A.02 requires the audit committee to oversee the process for selecting independent auditors. She reminded members that the board approved a revised plan for financial audits for the system in January, and that they had authorized a competitive bidding process to acquire external auditing services for fiscal years 2014 to 2016.

   A Request for Proposals went out in February requesting external audit services for nine financial statements audits for three fiscal years 2014, 2015 and 2016, A-133 compliance audit of federal student financial aid for three fiscal years 2014, 2015, 2016, and NCAA Agreed Upon Procedures at six universities for Fiscal Year 2015

   Ms. Buse stated that six public accounting firms submitted proposals in response to the RFP, four of the firms submitted proposals for all audit components. The proposals were reviewed by representatives of the Office of Internal Auditing, the Finance Division, and the Academic and Student Affairs Division.

   Ms. Buse explained that after reviewing the proposals, it was determined that there was a significant advantage in choosing one firm to provide audit services for all components. That advantage included the development of a trusted relationship with a single firm, a significant price savings and the ease of managing only one contract. Ms. Buse reviewed the selection criteria, but noted that there had been emphasis put on the firm having broad higher education experience.

Ms. Buse stated that she was recommending the external audit firm of CliftonLarsonAllen LLP to serve as the systemwide external auditor for the Minnesota State Colleges and Universities for the next three years. She noted that CliftonLarsonAllen had been serving higher education institutions nationally for over 35 years, and they were currently serving six higher education systems. The firm serves more single audits than any other firm in the country and had over a dozen years of experience with MnSCU.

Ms. Buse stated that in addition to the audit components that were included in the Request for Proposals, she also planned to add deliverables to the contract. She plans to request that CliftonLarsonAllen give an annual presentation to Audit Committee on higher education trends and where they see MnSCU compared to other systems. She also plans to request that the firm annually meet with system financial aid directors to share student financial aid administration best practices.

Trustee Anaya asked if CliftonLarsonAllen was the most qualified firm to perform the specific system audit requirements from the proposals that were reviewed. Ms. Buse agreed that they were the most qualified firm.

Trustee Vekich stated that CliftonLarsonAllen's depth of experience and resources, along with their thought leadership capabilities made them the right choice for the system at this time. He added that as the system begins the process for Charting the Future, he hoped that the system might be able to engage the firm to assist with modeling.

Trustee Anaya called for a motion. Trustee Vekich moved that the Audit Committee recommend adoption of the following motion. Trustee Paskach seconded the motion. The motion carried with one nay (Trustee Krinkie).

RECOMMENDED COMMITTEE ACTION:

The Audit recommends that the Board of Trustees adopt the following motion:

The Board of Trustees approves the appointment of CliftonLarsonAllen to serve as the systemwide external auditor for the Minnesota State Colleges and Universities.

The term of this appointment begins upon the execution of a contract and shall continue to fulfill external auditing needs for the three fiscal years from June 30, 2014 through 2016. The Board of Trustees authorizes the Executive Director of Internal Auditing and the Vice Chancellor/Chief Financial Officer to negotiate a contract with CliftonLarsonAllen consistent with the terms contained in its proposal dated March 6, 2014.

3. Internal Audit Update

Ms. Buse reported that the Office of the Legislative Auditor issued a report on the General Obligation Bond Expenditures in March. The report included the entire state and the Minnesota State Colleges and Universities were a piece. Ms. Buse stated that she had communicated a summary of the report and issues specific to MnSCU, to the commitee after the report was released. She noted that most of the recommendations were directed to

Minnesota Management and Budget, but that Vice Chancellor King and her staff are working on a few recommendations that required system follow-up.

4. Review Results of the Purchasing Card Internal Control and Compliance Audit

Ms. Buse introduced her staff. Mr. Eric Wion, Deputy Director, was the lead for the project. Ms. Melissa Primus, Audit Project Manager, was responsible for managing the project. She added that all of the staff had been involved with the project.

Ms. Buse reminded the committee that the Purchasing Card Internal Control and Compliance Audit had been part of the audit plan approved by the committee. She stated that the methodology included looking at operations at every college and university. Because each college and university was responsible for implementing their own internal controls over purchasing card programs, there were nuances and differences at every institution which added to the complexity.

Ms. Buse stated that internal controls were generally adequate. For the items tested, the colleges and universities generally complied with significant finance-related legal requirements and applicable policies, procedures, and guidelines.

Ms. Buse explained the variability in purchasing card programs across the system. She then explained the benefits and risks involved with purchasing card programs. She stated that many vendors no longer accept purchase orders, there are rebates offered to purchase card users, and vendors provide data analysis about purchases. She added however, that there was a risk of the abuse of cards, primarily personal use vs. business purposes, and there was a perception of credit being available.

Ms. Buse stated that there was a system procedure on purchase cards that specifically defines prohibited uses for purchase cards, and broadly defines consequences for misuse. Card holder and supervisor responsibilities are also defined. Ms. Buse outlined the audit objectives and the scope and methodology of the audit.

Mr. Wion reviewed the seven report findings as well as the section on other opportunities for improvement. In his comments, he emphasized that the supervisor's role and responsibility will continue to be challenging as programs continue to get larger, as more purchasing is occurring, and as more staff have purchasing cards. It will be important to make sure that supervisors understand their role and have the capacity to handle their responsibility. Mr. Wion added that existing procedures and guidelines will need to be reviewed and may need to be modified as purchasing card programs change and expand.

Ms. Buse explained that the Office of Internal Auditing is engaged with the Campus Service Cooperative in an advisory capacity on the implementation of the new purchasing card program. She stated that the timing of this audit was very good because her office was able to assist the CSC with identifying some of the challenge areas while they are working toward the implementation. She stated that Mr. Colin Dougherty, Managing Director of the CSC, had a team available to highlight their progress.

Trustee Anaya welcomed Mr. Dougherty and his staff. Mr. Dougherty stated that the committee should take great comfort that the issues that surfaced through the audit would be addressed, not only in terms of improved compliance, dramatically improved efficiency but also with contracts such as the new contract with U.S. Bank that will allow the system to earn rebates twice the size of those received in the past. He introduced Mr. Jason Cavallo, Strategy Director for the Campus Service Cooperative.

Mr. Cavallo introduced Mr. Conor Ward, student intern, Ms. Julene Donnay, loaned executive from United Health Group (through the Itasca Group), and Mr. Wayne Wolden, Business Manager at Minnesota State Community and Technical College.

Mr. Cavallo stated that hundreds of thousands of purchases are made in the system using a paper process. There have been only a few institutions that have individually begun using a more automated purchasing card process. He stated that goal would be to leverage that capability and talent to drive success for this initiative, unlock $2.5 million dollars in annual savings, and free up staff in the business office to do higher value, student facing activities. The CSC staff walked through the framework and talked about the work that the team was doing.

Trustee Anaya stated that the purchasing card audit was very thorough work and she thanked the internal auditing team for their good work. She agreed with Ms. King's response to the audit the conclusions were good news for the system. Trustee Anaya stated that the committee could have confidence in the system, but that the better news was that thanks to the work of the CSC, there could be even more improvement. She added that this was an exciting project that would bring the Minnesota State Colleges and Universities into the future.

Trustee Benson asked if there were other areas to leverage the generousity of the Itasca Project. Chancellor Rosenstone stated that there would be a full report by the CSC to the Finance Committee in June. He added that would be an opportunity to share the other Itasca Project member projects. Chancellor Rosenstone stated that they system had been able to reach back into companies around the state who have the best practices, and receive either loaned executives or loaned expertise.

Trustee Krinkie asked if there have been any improper use of purchase cards found across the system during the course of the audit. Ms. Buse stated that they had found purchases that that were not specifically authorized by a supervisor, but they had not found any purchases that they considered to be a misuse of system funds.

The meeting was adjourned at 9:09 a.m.

Respectfully submitted,
Darla Senn, Recorder

MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
Agenda Item Summary Sheet

Name: Audit Committee **Date:** May 21, 2014

Title: Review results of Minnesota State University Moorhead Internal Control and Compliance Audit

Purpose (check one):

- [ ] Proposed New Policy or Amendment to Existing Policy
- [ ] Approvals Required by Policy
- [ ] Other Approvals
- [X] Monitoring / Compliance
- [ ] Information

Brief Description:

As part of the Fiscal Year 2014 Internal Auditing Annual Audit Plan, the Office of Internal Auditing conducted an internal control and compliance audit of Minnesota State University Moorhead.

- We reviewed internal controls and compliance over selected activities for fiscal years 2012, 2013, and 2014 through December 31, 2013.
- Except for some receipts, the university generally had adequate internal controls and complied with finance-related legal requirements. For items tested, the university generally complied with MnSCU policies and finance-related legal provisions. We identified seven findings.
- A response from the university is included in the report.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing
Melissa Primus, Audit Project Manager, Office of Internal Auditing

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD INFORMATION
REVIEW RESULTS OF MINNESOTA STATE UNIVERSITY MOORHEAD INTERNAL CONTROL AND COMPLIANCE AUDIT

BACKGROUND

In June 2013 the audit committee approved the Fiscal Year 2014 Internal Auditing Annual Audit Plan. As part of that plan, the Office of Internal Auditing conducted an internal control and compliance audit of Minnesota State University Moorhead.

See attached report.

Date Presented to the Board of Trustees: May 21, 2014

Minnesota State University Moorhead

Internal Control and Compliance Audit

Office of Internal Auditing
May 13, 2014

Minnesota
STATE COLLEGES
& UNIVERSITIES

Reference Number 2014-04
Report Classification: Public

Minnesota State University Moorhead
Internal Control and Compliance Audit

Minnesota
STATE COLLEGES
& UNIVERSITIES

Office of Internal Auditing
Reference Number 2014-04
Public Release Date – May 13, 2014

Members of the MnSCU Board of Trustees
Chancellor Steven J. Rosenstone
President Edna Szymanski

This report presents the results of our selected scope financial internal control and compliance audit of Minnesota State University Moorhead for fiscal years 2012, 2013, and 2014 through December 31, 2013. It contains seven 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 April 22, 2014.

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

Beth Buse

Beth Buse, CPA, CIA, CISA
Executive Director

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The audit was performed by Carolyn Gabel, Craig Fautsch, Indra Mohabir, and Melissa Primus

Audit Scope

We reviewed internal controls and compliance over the following activities for fiscal years 2012, 2013, and 2014 through December 31, 2013.

- Receipts (included tuition, fees, room and board, and other supplemental receipts)
- Employee business expense reimbursements
- Procurement, disbursement, and equipment inventory
- Employee payroll

Conclusion

Except for some receipts, the university generally had adequate internal controls and complied with finance-related legal requirements. For items tested, the university generally complied with MnSCU policies and finance-related legal provisions. We identified seven findings.

Findings

1. The university did not have adequate controls to ensure receipts were safeguarded and properly deposited.
2. Business office cashiers shared accounting sessions and cash drawers.
3. The university did not accurately calculate and record some employee tuition waivers and show evidence of approval for other tuition waivers.
4. The university did not have procedures in place to determine who has the authority and when it is appropriate to waive certain types of fees or charges.
5. The university did not adequately restrict some employee's computer system access.
6. The university did not adequately manage its asset inventory records.
7. The university did not have procedures for a second person to review complex pay-related transactions for accuracy.

Opportunities for Improvement

The university has a unique organizational structure related to processing payments.

Section I: Background

Minnesota State University Moorhead is located in Moorhead, Minnesota. It was founded in 1885 and recently celebrated its 125th anniversary. Current student enrollment is approximately 8,500 and it employs about 680 faculty and 300 staff. MSU Moorhead offers over 75 majors and pre-professional programs, twelve graduate programs, and one doctoral program.

Since fiscal year 2002, the institution prepared combined financial statements that were audited by an external auditing firm. The institution received an unqualified or "clean" financial statement opinion on each of its financial statement audits. This opinion is issued when the financial statements are free of material misstatements and are represented fairly in accordance with Generally Accepted Accounting Principles.

MSU Moorhead's fiscal year 2013 operating revenues were approximately $55 million, of which $32 million was tuition. The university's fiscal year 2013 non-operating revenues were approximately $39 million, including $26 million in state appropriations. Fiscal year 2013 operating expenses were approximately $94 million, of which $63 million were salaries and benefits.[1]

Dr. Edna Szymanski, the university's tenth president, has been president since July 2008. Dr. Szymanski plans to retire in June 2014.

[1] Minnesota State University Moorhead *Annual Financial Report For the Years Ended June 30, 2013 and 2012*

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 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 comply with significant finance-related legal requirements, including state laws, regulations, contracts, and applicable policies and procedures?

Audit Scope

Our audit reviewed the following activities for fiscal years 2012, 2013, and 2014 through December 31, 2013.

- Receipts
  - tuition, fees, room and board
  - other supplemental receipts (theatre, swimming, and parking)
- Employee business expense reimbursements
- Procurement, disbursement, and equipment inventory
  - operating and administrative expenses
  - equipment expenses
- Employee payroll

Audit Methodology

We interviewed university 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 university's internal controls. 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 employee computer system access 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 controls were effective and transactions complied with laws, regulations, policies, and contract provisions.

Audit Conclusion

Except for some receipts, the university 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 and equipment inventory as discussed in the following findings and recommendations.

For items tested, the university 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

1. The university did not have adequate controls to ensure some receipts were safeguarded and properly deposited.

The university did not have adequate controls to ensure receipts were safeguarded and properly deposited. The university business office collects many receipts, such as tuition and fees, directly from students. Other supplemental receipts including theatre events, swimming lessons, and parking revenue are collected elsewhere at the university and delivered to the business office to be deposited. We found the following weaknesses when reviewing receipt controls.

- Someone independent of the receipt collection process did not review the daily cash reconciliations. Cashiers reconciled their own cash receipts to ISRS and prepared the daily bank deposits. Similar deficiencies existed over theatre, swimming, and parking receipts. In addition, documentation, such as an employee's signature indicating they prepared the reconciliation, should be retained to show evidence of the independent review.

- The parking office and theatre department lacked methods to reconcile some receipts collected to what should have been collected. For example, pre-numbered receipts were not issued for parking day passes sold compared to actual receipts collected. The theatre department did not have an adequate method to ensure other miscellaneous receipts such as costume and prop rentals were properly collected and deposited.

- The parking office does not reconcile the deposit slips obtained from the business office to the monthly general ledger activity reports to ensure receipts were posted appropriately.

- The university did not always deposit receipts in a timely manner. For example, $4,000 collected from theatre box office sales between September 13, 2012 and October 15, 2012 were deposited with the business office on October 16, 2012. Daily collections during this time ranged from $10 to $930. On March 18, 2013, the box office deposited just over $10,000 at the business office for receipt collections from March 4, 2013 to March 7, 2013 where daily sales exceeded $250. MnSCU system policy 7.5 Financial Institutions and Investments require receipts totaling $250 or more be deposited daily with receipts collected on the weekend deposited the next business day. Although deposits typically consist of a combination of cash, checks, and credit card charges, the policy requires that all receipts be deposited daily when over $250.

- Money bags containing cash, receipts, other items such as parking passes, were not adequately safeguarded. While they were stored in locked rooms or offices, they were accessible by several people including student workers and employees. When cash or receipts are stored in easily accessible areas, theft or loss may occur and be difficult to investigate.

- Staff or students from supplemental receipt areas walk receipts to the business office for deposit. For larger deposits, the university may want to consider using escorts to transport the deposits to the business office.

Recommendation

- *The university should identify all supplemental revenue sources, assess the adequacy of controls, and implement controls to ensure receipts are properly safeguarded, deposited, and processes and controls are documented. Controls should ensure:*
  - *deposits are complete and reconcile to supporting systems and documentation,*
  - *receipt reconciliations are completed by an independent person,*
  - *receipts are deposited timely, and*
  - *receipts are physically secured while being stored or delivered.*

2. Business office cashiers shared accounting sessions and cash drawers.

Cashiers in the university business office shared the same cash drawers and ISRS accounting system cash sessions. Although two primary cashiers typically collected and recorded receipts, they were not required to log off the system and change cash drawers when a backup cashier filled in.

Requiring cashiers to log on and off their cash sessions and maintain separate cash drawers provides accountability for transactions and any cash shortages. These controls also help protect cashiers if cash shortages occur. The university would have difficulty investigating missing cash if it cannot determine who recorded transactions or handled each cash transaction.

Recommendation

- *The university should require cashiers to log on and off ISRS cash sessions when appropriate and maintain separate cash drawers.*

3. The university did not have a process to review tuition waivers or calculations for accuracy.

The university did not have a process to review employee or student tuition waivers or calculations for accuracy. Waivers must be manually calculated and entered into ISRS making them more error prone. Without an independent review, errors or irregularities may go undetected.

The university inaccurately calculated employee tuition waivers for two of the three employees we tested. One of the employees tested received waivers for three terms; therefore, five waivers were reviewed. The errors resulted in ineligible waivers of $222 and $165 to two employees. Because of our testing, management reviewed an additional 175 employee tuition waivers for fiscal year 2014, noting some additional errors. The university is working to remedy the tuition waiver errors.

Recommendations

- *The university should implement controls, including independent reviews, to ensure waivers are properly authorized, calculated, and documented.*
- *The university should seek reimbursement from or provide refunds to employees who received incorrect tuition waivers.*

4. The university did not have guidance to determine who has the authority and when it is appropriate to waive certain types of fees or charges.

The university did not have written guidance to determine who has the authority and when it is appropriate to provide complimentary theatre tickets or waive parking fines. The theatre department occasionally provides complimentary tickets to its events. However, it does not have written guidance and instead, the producer of each event determines how many tickets can be provided as complimentary tickets and who should receive them.

In addition, the university did not always follow its policy related to handling some parking citations. The university's Parking Policy indicates that appeals for parking citations shall go through the university's Parking Committee. However, some parking citations do not follow this process and are instead voided upon request of management.

Without written guidance, it is not clear who has the authority to provide complementary theatre tickets or remove parking citations. As a result, the university and its employees may be at risk of violating Minnesota statues or MnSCU policies and procedure related to employee code of conduct and ethics.

Recommendation

- *The university should adopt a written policy that clearly defines who has the authority and in what circumstances complimentary theatre tickets can be provided and parking citations can be voided.*

5. The university did not adequately restrict some employee's computer system access.

The university did not adequately restrict some computer system access. Some employees had access they did not need or did not have access removed timely when they separated employment. Some employees had incompatible access without effective mitigating or detective controls. Finally, student workers in the human resource department shared an employee's account and password.

Unnecessary Access

Five student workers and six employees continued to have access to accounts receivable functions in ISRS after separation from employment. Two of the six former employees also had access to accounts payable functions in ISRS. The university is required to annually review and recertify employee's access to ISRS. The primary purpose of this is to identify and remove unnecessary access not removed timely. The university recertified five of the six employees after they had separated employment.

One employee, whose job responsibilities changed, retained access to several ISRS accounts receivable functions not needed in the employee's current job in human resources. Another employee had unnecessary access to the State's payroll system, SEMA4. Access to SEMA4 would allow an employee to make unauthorized changes to personnel records that could result in improper payroll transactions.

Incompatible Access

Four employees had incompatible access related to ISRS accounts payable functions. Three of the employees had incompatible access that allowed them to both initiate purchases and pay vendors in ISRS. Although the university designed an effective detective control to mitigate the risks that someone could prepare an unauthorized or fictitious purchase order and subsequently pay it, documentation demonstrating the control was being performed was not retained. One employee with physical access to checks could also void or cancel checks in ISRS excluding them from the report used by the person reconciling bank statements to ISRS. The university did not have a mitigating control for this incompatibility.

One employee temporarily had incompatible access that allowed them to collect receipts and record them in ISRS while also being able to adjust, waive, or defer the amounts owed by students or others. Receipts could be stolen and hidden by reducing the amounts owed. Temporary access for cashiering functions was needed to provide adequate customer service in the absence of the normal cashiers. The university did not have adequate controls to mitigate the risks posed by this employee having these temporary but incompatible duties.

Separating incompatible duties is preferred because it prevents errors, unauthorized transactions, and fraud from occurring and going undetected. However, preventative controls are not always possible. Therefore, the university needs strong after-the-fact monitoring or detective controls when it cannot separate duties. In addition to documenting these control procedures, including who does what and when, the university should monitor them to ensure they are being completed properly.

Shared Account and Password

Student workers in the human resources department used an employee's account and password to access MnSCU's personnel system and perform their job duties. The university indicated the system office denied a request to assign student workers their own accounts that only had the ability to view personnel data. The employee account used by student workers provided "HR Superuser" access that would allow them to change any personnel data or initiate any personnel transactions. Accountability is lost when people share an account and password making it nearly impossible to determine who made any changes. MnSCU system procedure 5.22.1 Acceptable

Use of Computers and Information Technology Resources and system guideline 5.23.1.1 - Password Usage and Handling prohibits this practice.

Recommendations

- *The university should implement procedures to ensure computer system access is removed or modified timely when an employee changes jobs within the university, goes on extended leave, or separates employment.*

- *The university should ensure the annual ISRS access recertification is completed accurately.*

- *The university should evaluate whether it can remove incompatible access. If not practical, detective controls should be established and monitored to ensure they are performed, effective, and proper documentation is retained.*

- *The university should ensure student workers and employees are assigned their own unique logon accounts and passwords. It should work with the system office to provide student workers in the human resources department individual accounts with the minimum access needed to do their jobs.*

6. The university did not adequately manage its asset inventory records.

The university did not adequately manage its asset inventory records. The university indicated they performed a physical inventory; however, it did not retain any documentation from completed physical inventories or properly update the ISRS Equipment/Capital Asset Module from the physical inventory. As a result, there were assets such as furniture and other equipment acquired since the 1970's that likely no longer exist but remain current assets in ISRS. We selected nine items recorded as current assets in ISRS to test and were only able to locate three of them. The items not found were valued between $10,000 and $122,000. The one item valued at $122,000 had been disposed.

The university's information technology department kept its own inventory records for computer equipment in electronic spreadsheets and completed its own periodic physical inventories. However, ISRS was not updated after physical inventories were completed. Except for audiovisual equipment, the computer equipment records did not provide information helpful to locate the equipment. In addition, the physical inventories were completed by IT staff that may not be independent because of their access to computer equipment increasing the risk that irregularities could occur and not be detected.

MnSCU System Procedure 7.3.6 Capital Assets requires the university to record assets valued over $10,000 and any sensitive items regardless of value, such as computers and other electronic equipment, in the ISRS Equipment/Capital Asset Module. The module tracks information about each asset including its value, location, date of disposal, and the date of the last physical inventory. The university is required to complete an annual physical inventory of all assets with an acquisition cost or value of $10,000 or greater and a physical inventory no less than every three years for all other assets maintained in the ISRS module. Without updating ISRS, the university is not able to easily determine what assets exist and location increasing the risk that lost or stolen assets would not be detected in a timely manner and records may be inaccurate.

Recommendations

- *The university should implement controls to ensure employees update ISRS timely when assets are acquired, sold, or disposed.*

- *The university should implement controls to ensure periodic physical inventories are completed, documented, and records are updated in ISRS in compliance with MnSCU system procedure.*

- *The university should conduct a physical inventory of university assets and update ISRS so it properly reflects current assets, including their location and date of physical inventory, and those that have been disposed.*

7. The university did not have procedures for a second person to review complex pay-related transactions for accuracy.

Adequate procedures were not in place to ensure complex pay-related transactions, including faculty assignments and severance calculations, were reviewed by a second person for accuracy. Faculty assignments are challenging because bargaining agreements and individual faculty situations can be very complex, the volume of assignments is high, and there are a wide variety of coding options. Severance calculations are error prone due to their complexity and reliance on manual calculations.

Recommendations

- *The university should have faculty assignments and severance pay calculations reviewed by a second person for accuracy.*

Section IV – Opportunities for Improvement

The university has a unique organizational structure related to processing payments.

The university business office includes purchasing and accounts payable staff similar to other MnSCU colleges and universities. However, relatively unique to MSU Moorhead, it also has five positions that are in other departments that also process payments. The five positions, referred to as "business managers," do not directly or indirectly report to someone in the business office. The five business managers are located in the Bookstore, Comstock Memorial Union (student union), Hendrix Clinic and Counseling Center, Student Housing, and Student Activities / Student Athletics. These five individuals each report to the director of the area they work in.

Each business manager performs purchasing and payment related procedures other than printing checks. They also develop their area's budgets and perform expense / budget analysis. The remainder of each business manager's responsibilities may vary by area. Each business manager maintains financial related files and documentation in the area they work. Decentralized accounting services may have some benefits but also challenges. The university should consider these benefits and risks to determine if the structure meets their needs going forward.

MINNESOTA STATE UNIVERSITY
MOORHEAD

OFFICE OF THE PRESIDENT

218.477.2243 T
218.477.5093 F

May 9, 2014

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 Minnesota State University Moorhead (MSUM) Internal Control and Compliance Audit which was conducted for the time period covering fiscal years 2012, 2013, and 2014 through December 31, 2013. We are pleased that the overall conclusion of the audit was that the university had adequate internal controls, complied with MnSCU policies, and followed other finance-related legal requirements.

As a retiring president and presidential liaison to the audit committee, I would like to take this opportunity to compliment the leadership and staff of the Office of Internal Auditing. The audit of our financial operations was an excellent example of a process that not only reduces risk but also stimulates quality improvement. The constructive conversation at the exit interview was very useful in identifying both strengths and weaknesses in our business practices. We welcome the opportunity to improve our financial operations based on the audit findings.

From my perspective, I believe that this process should be available to colleges and universities on a more frequent basis. Both the practice of the audit and the leadership tone that it reinforces can assist in reducing risk to the institution and the System.

Sincerely,

Edna Mora Szymanski

Edna Mora Szymanski, Ph.D.
President

Cc: Laura King, Vice Chancellor for Finance & Administration
Jan Mahoney, Vice President for Finance & Administration
Jean Hollaar, Associate Vice President for Finance & Administration
Karen Lester, University Comptroller

www.mnstate.edu
1104 Seventh Avenue South • Moorhead, Minnesota 56563

Following is the university response to the findings along with our plans to resolve them:

Finding 1: The university did not have adequate controls to ensure some receipts were safeguarded and properly deposited.

Minnesota State University Moorhead agrees with this finding. The associate vice president for finance and administration and the university comptroller will work together to put the following process in place beginning in fiscal year 2015 to address the issues identified.

Management will continue to work with all areas that have supplemental revenue. Business Services will communicate clear procedures on cash handling and safekeeping to campus leadership and the campus community at the beginning of each fiscal year. These procedures will include the best business practices of reconciling receipts daily and depositing timely as well as using locked deposit bags. When transporting large amounts of cash to or from Business Services, the use of escorts will also be recommended. Budget supervisors will continue to be advised to review their accounts monthly to verify the accuracy of deposits posted by Business Services. Business Services staff will conduct random checks of supplemental revenue areas to ensure employees are adhering to internal controls and procedures.

The university has purchased SRO4, Blackbaud advanced ticketing software, which is planned to be fully implemented in the next two years. The software will provide a method to reconcile receipts collected to what should have been collected. It also has the capability of accounting for miscellaneous receipts.

Finding 2: Business Office cashiers shared accounting sessions and cash drawers.

Minnesota State University Moorhead agrees with this finding. The associate vice president for finance and administration, the university comptroller, and the accounts receivable supervisor have already put the following process in place to address the issues identified.

Business Services cashiers no longer share cash sessions and/or cash drawers. If there is a need for a replacement cashier due to student lines, the replacement cashier logs in to a separate ISRS cash session and only accepts check or credit, no cash. Additionally, the two Business Services cashiers switch physical cash drawers at the beginning of each day and verify the cash base. The Accounts Receivable Supervisor reviews any daily deposit overages and/or shortages.

Finding 3: The university did not have a process to review tuition waivers or calculations for accuracy.

Minnesota State University Moorhead agrees with this finding. The associate vice president for finance and administration, the university comptroller, and the accounts receivable supervisor have already put the following process in place to address the issues identified.

The Business Services' administrative assistant calculates and enters employee tuition waivers in the accounting system at the beginning of each term. Because employee tuition waiver processing requires manual calculation and has an added complication due to banded tuition, the accounts receivable supervisor and/or a Business Services cashier review all employee tuition waivers to ensure they are properly authorized, calculated, and documented before the end of each term. The university seeks reimbursement or provides refunds for any processing errors that are found. The university has already sought reimbursement from or provided refunds to employees whom received incorrect tuition waivers during fiscal year 2014.

Finding 4: The university did not have guidance to determine who has the authority and when it is appropriate to waive certain types of fees or charges.

Minnesota State University Moorhead agrees with this finding. By July 1, 2014, the vice president for finance and administration will development written guidelines clearly defining who has the authority and under what circumstances complimentary tickets can be provided to university events.

The university will follow its policy for handling appeals of parking citations through the university's Parking Committee.

Finding 5: The university did not adequately restrict some employee's computer system access.

Minnesota State University Moorhead agrees with this finding.

The chief human resources officer will work with departments to create a process to remove unnecessary computer security access in a timely manner for employees whom have transferred within the university or left university employment. This process will be implemented by August 2014. Additionally, we respectfully request the System Office to create a technological solution to remove computer security access of separated employees at the StarID level.

Business Services will communicate with supervisors to ensure the annual ISRS security access review and recertification process is completed accurately each year.

The university has reviewed and removed incompatible security access where possible. For any remaining incompatibilities, detective controls have been revised to be more effective and are being performed by supervisors at least quarterly. Supervisors forward mitigating control documentation via e-mail to the university comptroller. University comptroller provides follow-up to ensure review documentation is received timely.

Student workers in Human Resources no longer have computer system access by using an existing employee's logon account and password. This was effective immediately and all Human Resources staff are responsible for not sharing their logon account and password. The System Office is in the process of creating guidelines for student worker access to personnel data not considered confidential. When the System Office guidelines are available, the university will adopt and follow them.

Finding 6: The university did not adequately manage its asset inventory records.

Minnesota State University Moorhead agrees with this finding. The associate vice president for finance and administration, the university comptroller, and the accounts payable supervisor will collaborate with Information Technology and the Physical Plant to develop an effective business process to address the identified issues:

1) to update the Equipment/Capital Asset module timely when assets are acquired, sold, or disposed;
2) to conduct an annual physical inventory to document location of all current assets with an acquisition cost or value of $10,000 or greater and update the module accordingly; and
3) to conduct a physical inventory to document location of all current assets maintained in the Equipment/Capital Asset module no less than once every three (3) years and to update the module accordingly.

Effective asset inventory business practices at other MnSCU institutions will be reviewed and the possibility of implementing a technological solution such as radio-frequency identification (RFI) may be considered. With the proper budget allocation for any necessary staffing and/or equipment, effective management of the university's asset inventory is expected to be accomplished according to the following timeline:

During fiscal year 2015, the university will

1. clearly define assets that are considered sensitive;
2. remove from the Equipment/Capital Asset module all assets acquired before 1986;
3. remove from the Equipment/Capital Asset module all assets with an acquisition cost or value of less than $10,000 that are not considered sensitive; and
4. educate the campus community on the information needed by Business Services in order to update the Equipment/Capital Asset module timely when assets are acquired, sold, or disposed.

During fiscal year 2016 and each year thereafter, the university will

1. conduct a physical inventory to document location of all assets with an acquisition cost or value of $10,000 or greater and update the module accordingly.

During fiscal year 2017 and at least every three (3) years thereafter, the university will

1. conduct a physical inventory to document location of all assets maintained in the Equipment/Capital Asset module and update the module accordingly.

Finding 7: The university did not have procedures for a second person to review complex pay-related transactions for accuracy.

Minnesota State University Moorhead agrees with this finding. By September 2014, the chief human resources officer will put an audit process in place to have complex pay-related calculations reviewed by a second person.

Section IV: Opportunities for Improvement

The university has a unique organizational structure related to processing payments.

At this time, the Student Union and the Health and Wellness business manager functions will be centralized in Business Services because those positions are currently vacant. The Bookstore, Student Housing, and Student Activities/Student Athletics business managers will continue to process payments and maintain the financial-related files and documentation in the area in which they work. As these positions become vacant, the university will strongly consider the possibility of centralizing these duties in Business Services as well.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
Agenda Item Summary Sheet

Name: Audit Committee **Date:** May 21, 2014

Title: Review Results of Financial Aid Audits

Purpose (check one):

☐	Proposed New Policy or Amendment to Existing Policy	☐	Approvals Required by Policy	☐	Other Approvals
☒ X	Monitoring / Compliance	☐	Information		

Brief Description:

Federal law requires an annual audit of major federal financial assistance programs, including the student financial aid programs. The firm of CliftonLarsonAllen, LLP conducted the audit as part of its responsibilities as principal auditor for MnSCU. The auditor's report on compliance for the major federal award programs expressed an unqualified opinion. The audit report contains two isolated compliance findings related to certain federal financial aid regulations.

MnSCU received over $311 million in federal grants and students borrowed nearly $737 million of federal loans in fiscal year 2013.

Minnesota Office of Higher Education regularly conducts audits of colleges and universities.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing
Christopher Halling, System Director for Financial Aid
Craig Popenhagen, Principal with CliftonLarsonAllen, LLP

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD INFORMATION
REVIEW RESULTS OF FINANCIAL AID AUDITS

BACKGROUND

Copies of Minnesota State Colleges and Universities Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2013 were provided to members of the Board of Trustees in the Board materials for the May 21, 2014 meeting. Additional copies will be made available at the meeting. The report was prepared by the firm of CliftonLarsonAllen LLP as part of its responsibilities as principal auditor for the Minnesota State Colleges and Universities. The results of this report were incorporated into the State of Minnesota's Single Audit report that was released in late March. Copies of that report are available on the Minnesota Management and Budget web site at (http://www.mmb.state.mn.us/2013-cafr).

The Minnesota Office of Higher Education conducts regular program reviews of state paid financial aid administered by MnSCU colleges and universities.

The attached PowerPoint presentation provides a summary of audit work completed on federal and state student financial aid programs.

Date Presented to the Board of Trustees: May 21, 2014

Minnesota State Colleges and Universities

Review Results of Financial Aid Audits

Beth Buse, Executive Director of Internal Auditing
Christopher Halling, System Director for Financial Aid
Craig Popenhagen, Principal with CliftonLarsonAllen LLP

May 21, 2014

Minnesota State Colleges and Universities

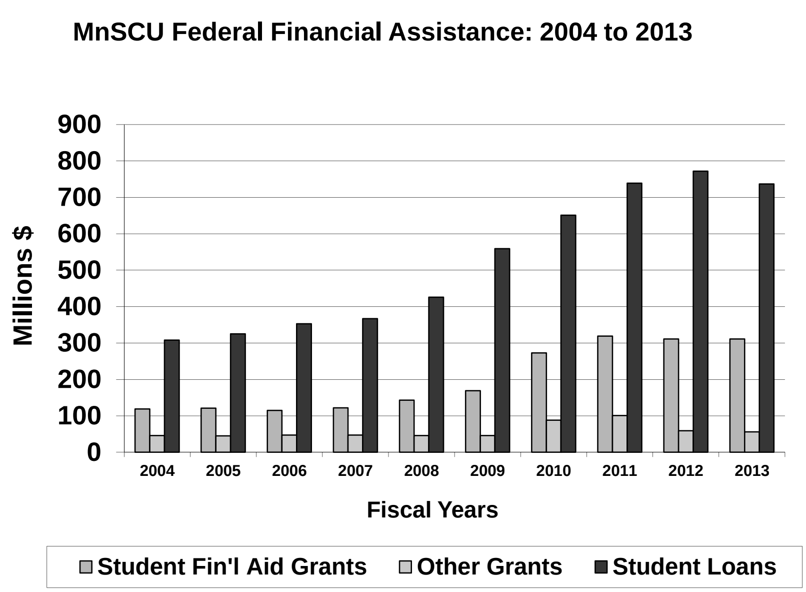
REVIEW 2013 FEDERAL FINANCIAL ASSISTANCE AUDIT REPORT

Minnesota STATE COLLEGES & UNIVERSITIES

Background

- Annual audit required by federal law
- Focus on major programs
  - Student Financial Aid
- Audit work performed by Principal Auditor (CliftonLarsonAllen)
- Results were included with State of Minnesota Report

Minnesota State Colleges & Universities



Note: Student Loans Exclude Perkins and Nursing Loans

Minnesota State Colleges & Universities

Fiscal Year Comparison – Federal Financial Aid Grants

Program Title	FY13 Total	FY12 Total	Amount Change	% Change
Federal Pell Grant Program	$296,890,308	$297,167,750	($277,442)	-0.1%
Federal Work-Study Program	$6,698,056	$7,179,090	($481,034)	-7%
Federal Supplemental Education Opportunity Grants	$6,451,325	$6,089,367	$361,958	6%
Academic Competiveness Grants	$43,500	$69,646	($26,146)	-38%
National Science and Math Talent (Smart) Grants	$31,680	$45,150	($13,470)	-30%
Teacher Education Assistance for College and Higher Ed. Grants	$498,304	$454,803	$43,501	10%
Totals	$310,613,173	$311,005,806	($392,633)	-0.1%

Minnesota STATE COLLEGES & UNIVERSITIES

Fiscal Year Comparison – Federal Loans

Program Title	FY13 Total	FY12 Total	Amount Change	% Change
Federal Direct Student Loans	$736,667,111	$771,876,888	$35,209,777	-5%

Minnesota STATE COLLEGES & UNIVERSITIES

FY 2013 Federal Student Financial Aid Findings

- 2 Findings
  - Of 40 sampled, 1 return to Title IV calculation was incorrect – questioned costs were $24 of subsidized Stafford that should have been returned.
  - Of 60 students tested, 3 did not receive exit counseling when they terminated attendance (at 3 separate colleges).

Minnesota STATE COLLEGES & UNIVERSITIES

Prior Year (2012) Federal Student Financial Aid Findings

- 3 prior findings
- All were Resolved

Minnesota STATE COLLEGES & UNIVERSITIES

Federal Financial Aid Finding History

Fiscal Year	Total Findings	Questioned Costs
2006*	6	$1,479,644
2007	8	10,323
2008	3	0
2009	5	4,567
2010	4	4,698
2011	3	0
2012	3	0
2013	3	24
Total	32	$1,499,256

* - includes questioned costs from USDOE program reviews

Minnesota STATE COLLEGES & UNIVERSITIES

USDOE Program Reviews

- Minneapolis Community and Technical College
  - Reviewers were on site in March 2014
  - Awaiting final report
- St. Paul College
  - Scheduled visit by reviewers in June 2014

Minnesota STATE COLLEGES & UNIVERSITIES

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Minnesota Office of Higher Education

SUMMARY AND RESULTS OF AUDIT WORK

Minnesota State Colleges & Universities

Background

Summary for All Participating Minnesota Higher Education Institutions

Minnesota Student Financial Aid Programs

Program	Dollars Appropriated (FY2014)	Funds Awarded to Students (FY2013)	Number of Students Receiving Aid (FY2013)	Number of MN Institutions Participating (FY2013)
Minnesota State Grant	$179,141,000	$161,418,000	99,440	114
State Work Study	$14,502,000	$14,490,000	10,633	83
Postsecondary Child Care Grants	$6,684,000	$5,649,000	2,666	68
Minnesota Indian Scholarship	$3,100,000	$2,385,000	758	74
Public Safety Officer Survivor's Grants	$100,000	$63,000	8	6
Minnesota SELF Loans	$0	$67,408,000	10,888	122
Total	**$203,527,000**	**$251,413,000**		

Source: Minnesota Office of Higher Education

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Background –
Minnesota Office of Higher Education

Student Financial Aid Programs Administered by MOHE	Total FY 2013 Awarded	MnSCU FY 2013 Awarded	MnSCU %	Total FY 2011 Awarded	MnSCU FY 2011 Awarded	MnSCU %
State Grant	$161,418,000	$64,765,000	40%	$119,829,000	$36,849,000	31%
Postsecondary Child Care Grant	$5,649,000	$4,788,143	85%	$6,524,000	$5,054,000	77%
Public Safety Officer's Survivor Grant	$63,000			$74,000	$16,000	22%
Minnesota Indian Scholarship	$2,385,000	$1,233,303	52%	$1,843,000	$1,218,000	66%
Minnesota State Work Study	$14,490,000	$7,820,399	54%	$19,599,000	$9,673,000	49%
Student Educational Loan Fund (SELF)	$67,408,000	$18,272,876	27%	$69,700,000	$25,171,000	36%

Also, administers tuition reciprocity agreements

Minnesota STATE COLLEGES & UNIVERSITIES

Background –
Minnesota Office of Higher Education

- Distinctive program eligibility requirements for most programs
  - Minnesota Residency
  - Minimum enrollment status requirements
  - Education term limits
- Other program specific requirements
  - Postsecondary Child Care Grant Program
  - Minnesota Indian Scholarship

Minnesota STATE COLLEGES & UNIVERSITIES

Background –
Minnesota Office of Higher Education

- Program Reviews (audits)
  - Audit manager and two audit staff
    - Have gone through staffing changes in past year
  - Conduct rotating audits of all MN colleges and universities (public, private non-profit and private for-profit)
  - Conduct audit work on individual colleges and universities, not the system as a whole
  - Current goal – conduct reviews a minimum of once every four years

Minnesota State Colleges & Universities

Audits –
Minnesota Office of Higher Education

Minnesota State Colleges and Universities
Audit Finding History

Fiscal Year	Audit Reports Issued	Total Recommendations	Total Amount Repaid
2008	7	29	$33,648
2009	12	29	$16,523
2010	15	67	$20,310
2011	3	22	$3,882
2012	12	74	$44,616
2013	7	71	$5,322
2014*	10	49	$6,909
Total	55	289	$124,301

*** - Thru April 2014**

Minnesota State Colleges & Universities

Audits –
Minnesota Office of Higher Education

- Audit Finding Observations
  - Most issues noted in Child Care and State Grant Programs
  - Most audit findings are a result of manual calculation errors or incomplete information for determining program eligibility
- Follow-up
  - Internal Audit has been tracking and following up on findings since 2003

Minnesota
STATE COLLEGES
& UNIVERSITIES

MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
Agenda Item Summary Sheet

Name: Audit Committee **Date:** May 21, 2014

Title: Review Results of Audit Risk Assessment

Purpose (check one):

- [ ] Proposed New Policy or Amendment to Existing Policy
- [ ] Approvals Required by Policy
- [ ] Other Approvals
- [ ] Monitoring / Compliance
- [X] Information

Brief Description:

In June 2014, the Board of Trustees will be asked to approve the fiscal year 2015 audit plan. In preparation of that action, Audit Committee input is needed to determine priorities, given available resources and risk assessment results.

An audit risk assessment methodology was utilized to identify risks to consider in determining audit priorities for fiscal year 2015.

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.

Scheduled Presenter(s):

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

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD INFORMATION
REVIEW RESULTS OF AUDIT RISK ASSESSMENT

BACKGROUND

The attached PowerPoint presentation documents the results of this work.

Date Presented to the Board of Trustees: May 21, 2014

Minnesota State Colleges and Universities

Fiscal Year 2015 Audit Planning

Risk Assessment Results

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

May 21, 2014

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 discussions
  - Review of thought leadership on risks across sectors and specifically related to higher education
- Prioritization of Audit Resources
  - Financial Audits
  - IT Audits
  - Non-financial Operational Audits

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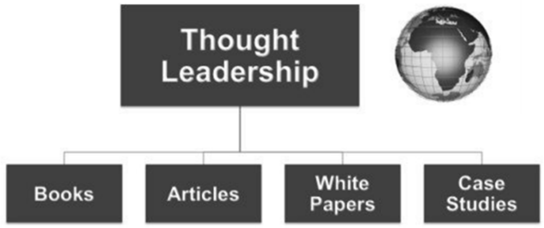

- Professional Organizations
  - Association of Governing Boards
  - Institute of Internal Auditors
  - Educause
  - ISACA
- Consulting firms
  - Deloitte
  - PWC
  - Gartner
  - Protiviti
  - Grant Thorton

Minnesota STATE COLLEGES & UNIVERSITIES

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Thought Leader Themes Related to Risk

- Business transformation across all industries is a norm
- Cyber Security
- Social Media
- Affordable Care Act
- Reputational
- Higher Education - low enrollment and risk management

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Audit Risk Assessment

Focus Areas

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- Strategic Framework – adopted by board in January 2012
  - Charting the Future – adopted November 2013
    - Implementation planning in progress

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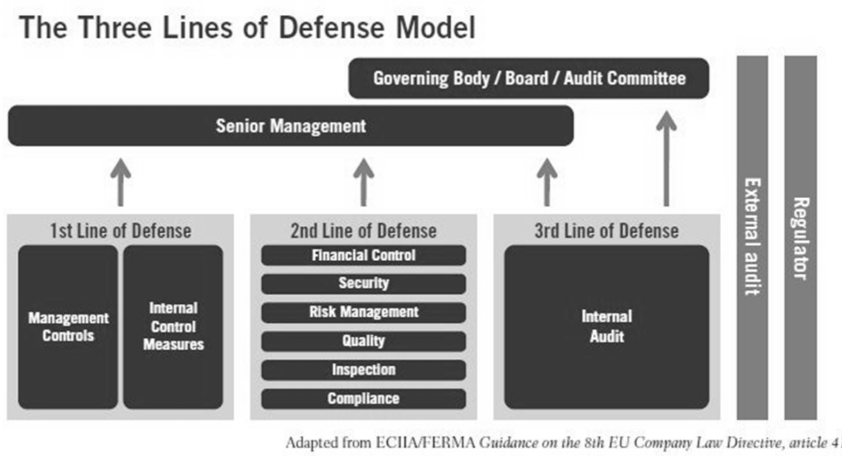
Operational Risk Management



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Operational Risk Management:
Three Lines of Defense Model

- First Line of Defense – functions that own and manage risks
  - Operational management identifies, assesses, controls, and mitigates risks, guiding the development and implementation of internal policies and procedures and ensuring that activities are consistent with goals and objectives.
- Second Line of Defense – functions that oversee risks
  - Management establishes various risk management and compliance functions to help build and/or monitor the first line-of-defense controls.
- Third Line of Defense – functions that provide independent assurance
  - Internal audit function

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Operational Risks: Themes

- Overall: Resource constraint challenges
  - Impact and support of leadership transitions
  - Decentralized processes
  - Increasing complexity of operations and regulations
    - Encouraging innovation vs. implementing solutions on a systemwide basis
  - Limited second-line of defense
  - Energy and resources needed to implement change
  - Evolving risk management program

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Operational Risks:
Specific Topics

- Academic
  - International studies programs
  - Undergraduate student transfer
- Regulatory Compliance
  - Clery Act - Title IX
  - ADA - Environmental and Occupational Health and Safety
  - PCI
- Human resources
  - Pension administration
  - Workers compensation management

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Operational Risks:
Specific Topics

- Facilities
  - Keeping employees and students safe
  - Ability to effectively respond to emergencies
  - Deferred maintenance
- Other
  - Campus Service Cooperative
- Emerging
  - Affordable Care Act

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Financial Risks

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Background

- January 2014 – Board approved a revised financial audit plan for system
  - Reduced number of individual college and university audits
  - Goal to Increase number of financial internal control and compliance audits
    - Institution
    - Functional
- Risk Methodology
  - Institution risk model
  - Functional area analysis

Financial Risks: Institution

Metrics Used

Metric Category	Factors Measured
Audit (points = 350)	• 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)	• Operating gains or the size of losses • Composite Financial Index (CFI) • Overall materiality of financial transactions
Business Operations (points = 275)	• 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 = 1025

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Financial Risks: Institution Risk Model Results

- Overall model showed increase in financial risk
  - Drivers
    - Increase in number of years since last internal control and compliance audit.
      - Over 10 years = 7
      - 6 – 10 years = 11
      - 0 – 5 years = 20
    - Increase in number of institutions with a negative net operating income (FY12 = 10 to FY13 = 20)
    - Decrease in CFI by 23 institutions from FY12 to FY13
    - Change in key personnel

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Financial Risks: Institution

- What should be the biggest factors in determining financial risk?
  - Materiality of financial transactions (size of institution)
  - Changing control (Loss of key personnel)
  - Time since last internal control and compliance audit
  - Other factors
- If materiality is biggest factor, does that mean no audits of smallest colleges?
- Should there be a required rotation?

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Financial Risks: Functional Areas

Control Environment
- Integrity and Ethical Values
- Risk Management
- Commitment to Competence
- System Policies and Procedures

Financial Management
- Banking and Cash Controls
- Budgeting & Allocation Formula
- Grant Management
- **User Security – financial systems**
- Financial Health Indicators
- Regulatory Compliance

Expenditures
- Employee Payroll
- Procurement
- Purchasing Cards
- Accounts Payable
- Contracting
- Financial Aid
- Capital Projects
- Student Payroll

Revenues
- Tuition and Fees
- Accounts Receivable
- **Grants & Contracts**
- **Customized Training**
- Academic Resale
- **Service Revenue**
- Foundations

Other
- Revenue Fund
- Auxiliary
- Capital Assets
- **Athletics & Student Activity Funds**
- Document Imaging

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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

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Information Technology (IT) Risks

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Broad Categories of IT 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

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Cost of a Breach

- Reputation
- Education industry average cost per record is $111*
  - Forensics consultants
  - Lawyer fees
  - Call centers
  - Websites
  - Mailings
  - Identity-protection and credit-check services
  - Additional security assessments and projects

* Source: Ponemon Institute report titled "2013 Cost of Data Breach Study: Global Analysis"

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Breaches in Higher Education

- University of Maryland Data Breach (February 2014)
  - Over 300,000 student and employee records dating as far back as 1998
  - Cost is unknown – One expert estimates at least a couple million
- Indiana University (February 2014)
  - 146,000 student records exposed for 11 months because of an employee error
  - Known costs: $75k for call center, $6k on mailings & 700 hours of staff time
- North Dakota University (March 2014)
  - Over 291,000 student and employee records
  - Known costs include over $200,000 on identity theft protection
- Maricopa County Community College District
  - 2.4M student, employee and vendor records going back 30 years
  - ~ $10M notification, credit monitoring ands remediation, $2.7M legal fees, $7M repair network and computers, likely class action lawsuit settlement unknown

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Internal Audit - IT Risk Identification

- Discussions with IT professionals at the system office and some colleges and universities
- Attended annual MnSCU ITS conference
- Attended Regular Meetings: CIO Committee (biweekly), IT Risk Management Committee (monthly), and IT Guidelines Committee (monthly)
- Reviewed various documents
  - *IT Service Delivery Strategy* document
  - System Policies, Guidelines and Procedures
- Auditor brainstorming and input

Minnesota State Colleges & Universities

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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
  - Operational Data (Warehouse)
  - Vulnerability Management System (VMS)
  - Identity and Access Management (IAM) System

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MnSCU Computing Environment

- Each college and university manages own data center(s), local area networks and other institution-specific info. Systems
  - Difficult for Internal Audit to determine
  - What we do know about Institution IT
    - Each responsible for managing/securing own networks, computers, and applications
    - Employees and students access enterprise systems
    - Commercial and custom applications are used
    - Many copy ISRS data and store it in local databases
    - Each have point-of-sale systems and process credit card transactions
    - Third-party outsourcing of some IT services

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FY15 Audit Planning

Minnesota STATE COLLEGES & UNIVERSITIES

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FY15 Audit Planning

- Resource Prioritization
  - Financial
    - Individual College and University
    - Functional
  - Information Technology
    - Security
  - Operational
    - Compliance
    - Program areas

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Questions

- Are there risk areas that we did not include that we should have?
- Given limited internal audit resources, what risks or risk areas should internal audit focus on in fiscal year 2015?
- Are there any other items that internal audit should take into consideration in planning the FY2015 audit plan?

Minnesota State Colleges & Universities

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