

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

Name: Audit Committee

Date: October 21, 2014

Title: Review Annual Internal Auditing Report for FY2014

Purpose (check one):

Proposed
New Policy or
Amendment to
Existing Policy

Approvals
Required by
Policy

Other
Approvals

Monitoring /
Compliance

Information

Brief Description:

Board policy requires an annual report from the Office of Internal Auditing that summarizes the results of audits conducted during the previous fiscal year.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing

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

INFORMATION ITEM

REVIEW ANNUAL INTERNAL AUDITING REPORT FOR FY2014

The annual report for fiscal year 2014 is attached.

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

Internal Auditing Annual Report

Fiscal Year 2014

Office of Internal Auditing

October 21, 2014



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Minnesota
STATE COLLEGES
& UNIVERSITIES

Internal Auditing Annual Report Fiscal Year 2014

Office of Internal Auditing
Reference Number 2014-07

October 21, 2014

October 21, 2014

Members of the Board of Trustees

I am pleased to submit the annual report on the Office of Internal Auditing for fiscal year 2014 as required by Board Policy 1D.1 part 8.

This report summarizes the activities accomplished and facilitated by Internal Auditing over the past year. I am proud of the talented and dedicated professional staff who take great pride in their work. The office conducts audits in conformance with *International Standards for the Professional Practice of Internal Auditing*.

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

Thank you for your confidence and support in our work.

Beth Buse, CPA, CIA, CISA
Executive Director

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Summary

The audit plan approved by the Board of Trustees in June 2013 provided the foundation for the internal auditing activities carried out in fiscal year 2014. Some noteworthy activities included:

- **Financial Internal Control and Compliance Audits:**
 - Purchasing Cards
 - Minnesota State University Moorhead
- **Information Technology Audits:**
 - ImageNow
 - Learning Management System, Desire2Learn
- **External Audits:**
 - Financial Statements - CliftonLarsonAllen, the principal auditor for the system, and two other audit firms gave unqualified (clean) financial statement audit opinions for the system and 13 colleges and universities for fiscal year 2013.
 - Student Financial Aid – the system contracts with CliftonLarsonAllen to complete required audit work on federal financial aid. The Minnesota Office of Higher Education completes compliance audits of state aid programs.
- **Follow-up:** colleges and universities continued to make progress in resolving outstanding audit findings.
- **Inquiries and Investigation:** Internal Auditing continues to spend a significant amount of time in conducting fraud inquiries and investigations. Fortunately, there were no significant losses.

I. Assurance Services

Internal Auditing spent the majority of its time working on assurance services which, depending on the scope of the audit, may focus on the quality and reliability of information, legal compliance, and operational efficiency and effectiveness. The following assurance service projects were conducted during fiscal year 2014.

Financial Internal Control and Compliance Audits

Fiscal year 2014 was the third year in implementing a different approach¹ for obtaining financial internal control and compliance audit coverage within the system. The approach contains a combination of limited stand-alone institution audits with a bigger focus on systemwide functional area audits. The following audits were completed and discussed with the Audit Committee:

- **Purchasing Card Controls:** In April 2014, Internal Auditing released an internal control and compliance audit on purchasing card controls.

MnSCU’s system office, its 37 accredited colleges and universities, and the Northeast Higher Education District’s Northeast Service Unit (NESU) each had Pcard programs. Some had relatively large programs, with hundreds of cardholders including staff and faculty, others had very limited programs with a few cardholders such as purchasing staff or the president’s cabinet.

Each was responsible for internal controls related to purchasing card activity.

Our audit concluded that institutions generally had adequate internal controls over purchasing card activities and, for item tested, generally complied with finance related legal requirements. However, the report identified seven internal control and compliance findings. We also identified several benefits and challenges for system leaders to consider as MnSCU moves to a single Pcard provider and contract negotiable by the Campus Service Cooperative.

- **Minnesota State University Moorhead:** In May 2014, Internal Auditing released an internal control and compliance audit of Minnesota State University Moorhead.

The audit scope included fiscal years 2012, 2013, and 2014 through December 31, 2013. Our audit concluded that the university generally had adequate internal controls and for items tested, generally complied with MnSCU policies and finance-related legal provisions. However, the report did contain seven internal control and compliance findings.

Considerations for System Leaders

Examples of benefits and opportunities available by moving to a single pcard provider:

- Improved internal controls and efficiencies if institutions use the vendor’s Pcard computer system for automated workflow and increased monitoring activities.
- Shared services become a more viable option if institutions use common tools and business processes.
- Additional financial incentives in the form of increased rebates.

¹ The system no longer contracts with the Office of the Legislative Auditor to complete cyclical internal control and compliance audits on the non-financial statement audited colleges.

Information Technology Audits

Internal Auditing conducted audits of ImageNow and Desire2Learn. These audits focused primarily on internal controls that help to protect the confidentiality, integrity, and availability of the computer systems and data. The results of the audits are being used to enhance the overall information technology and security program of MnSCU.

External Audits

Board policy requires internal auditing to coordinate all audit-related activities within MnSCU. The following audits were conducted by external auditors.

- **Systemwide, Revenue Fund, and College and University Financial Statements:** Audits of fiscal year 2013 financial statements marked the thirteenth year that MnSCU contracted for an external audit of its financial statements. The external audit firm of CliftonLarsonAllen provided an unqualified (clean) opinion on the systemwide financial statements in November 2013.

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

In addition, audited financial statements were developed for 13 of the largest institutions: the seven state universities and six two-year colleges. The financial statements for all 13 institutions received unqualified audit opinions from the CPA firms that the board appointed for the audits. Notably, all 13 institutions had no “material weaknesses” in internal controls noted. However, Metropolitan State University had a “significant deficiency” related to payroll errors that were a result of turnover in human resources personnel. These errors were not determined to be material to the financial statements. In addition, Rochester Community and Technical College also had a “significant deficiency” related to adjustments that were made to the statements.

- **ISEEK²:** MnSCU is the fiscal agent for ISEEK. A joint powers agreement requires an annual financial statement audit. CliftonLarsonAllen provided an unqualified (clean) opinion on the ISEEK financial statements in November 2013.
- **Federal Student Financial Aid:** Federal law requires an annual audit of major federal programs. The Office of the Legislative Auditor identifies major federal programs for the State of Minnesota, including MnSCU. It identified student federal financial aid as the only major federal program for MnSCU in fiscal year 2013. CliftonLarsonAllen completed the audit work

² ISEEK is one of the most comprehensive resources available to the citizens of Minnesota who want to find information about careers, education, and jobs. ISEEK is sponsored by iSeek Solutions partnership. The iSeek Solutions board is comprised of leaders from state government, University of Minnesota, and MnSCU.

as part of its responsibilities as principal auditor for MnSCU. The audit concluded that MnSCU complied, in all material respects, with the compliance requirements over student financial aid. The report did include two minor compliance findings with questioned costs of only \$24.

The results of CliftonLarsonAllen's work were incorporated into the State of Minnesota's Single Audit report that was released in March 2014.

- **State Student Financial Aid:** The Minnesota Office of Higher Education conducts regular program reviews of state paid financial aid administered by MnSCU colleges and universities. The results of fiscal year 2014 audits are similar to past year results and contained minor technical findings that are typically the result of manual calculation errors or incomplete information for determining program eligibility.
- **Construction Auditing Pilot:** Internal Auditing contracted with the audit firm of Honkamp Krueger & Co., P.C. in January 2013 to perform contract compliance audits on two capital construction projects. The office received \$50,000 in system office initiative funds to complete a pilot project on construction auditing. We worked with Associate Vice Chancellor Brian Yolitz and his staff to select two construction projects to include in the pilot; Minneapolis Community and Technical College (MCTC) on the workforce program renovation and Hennepin Technical College (HTC) on the Learning Resources Center & Student Service Center renovation. Honkamp Krueger completed their work and reported the results at the June 2014 Board of Trustees meeting. As of September 2014 MCTC had recovered about \$19,000 and HTC was working to recover nearly \$33,000 in overpayments that were identified during the audit. Honkamp Krueger also offered several best practice suggestions, including ways to strengthen contract language to minimize future contract disputes and unallowable charges. We plan to analyze the results of the pilot project and report the results to the Audit Committee in fiscal year 2015.
- **General Obligation Bond Expenditures:** The Office of the Legislative Auditor released an audit report in March 2014. The report was directed to the Department of Management and Budget (MMB) but did include audit work at MnSCU colleges and universities that had projects authorized by the 2008 and 2010 bonding bills. Overall, the report concluded that entities that were audited generally had adequate internal controls to ensure that they used general obligation bond proceeds in compliance with applicable finance-related legal requirements. However, there were four findings that did mention MnSCU colleges and universities.

Revised Financial Audit Plan

In January 2014 the Board of Trustees adopted a revised financial audit plan for the system. The revisions to the plan were primarily based on substantial improvement in financial risk management since fiscal year 2000 when the current plan had been set in place. The board endorsed the following recommendations in the revised plan:

Financial Statement Audits:

- Move toward a goal to only complete an audit of the systemwide financial statements, revenue fund and federal student financial assistance (A-133).
- 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 systemwide financial report with additional college/university level detailed schedules.

Financial 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 Audit Committee by January, 2015
- Continue refinement of the risk assessment tool used for audit planning.

By January 2017, complete an analysis to determine:

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

Follow-up on Prior Audit Findings

The Board of Trustees and Chancellor expect timely resolution of audit findings. Internal Auditing maintains a database for tracking audit findings and monitors the status of both internal and external audit findings through resolution. Presidents are provided a mid-year and end-of-year follow-up report. Colleges and universities continued to make significant progress on resolving outstanding audit findings during fiscal year 2014. As of June 30, 2014, there were 61 unresolved audit findings, all but two of which were in satisfactory progress³. Table 1 summarizes fiscal year 2014 activity.

³ The Office of Internal Auditing concluded that colleges and universities were on track to resolving the findings timely.

**Table 1: College and University Audit Finding Activity Summary
As of June 30, 2014**

	As of June 30, 2014	Previous Year Balances
Unresolved as of July 1, 2013	165	54
Additions – Fiscal Year 2014	129	367
Resolved – Fiscal Year 2014	233	(256)
Unresolved as of June 30, 2014	61	165

Status of Unresolved Findings

Satisfactory Progress	59	165
Unsatisfactory Progress	2	0

II. Fraud Inquiry and Investigation Support

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

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

- **Theft of equipment:** includes the theft of laptops, iPads, iPhones, and other information technology equipment. In most cases, colleges and universities report these incidents to local law enforcement.
- **Financial aid fraud:** two year colleges, primarily in the metro area, continue to deal with student financial aid fraud cases. Internal Auditing works closely with the Inspector General of the U.S. Department of Education on these incidents.
- **Bank account incidents:** these types of incidents commonly include fraudulent checks being drawn on an account.

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

III. Advisory Services

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

Specific areas that Internal Auditing was engaged in advisory services included:

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

IV. Planning

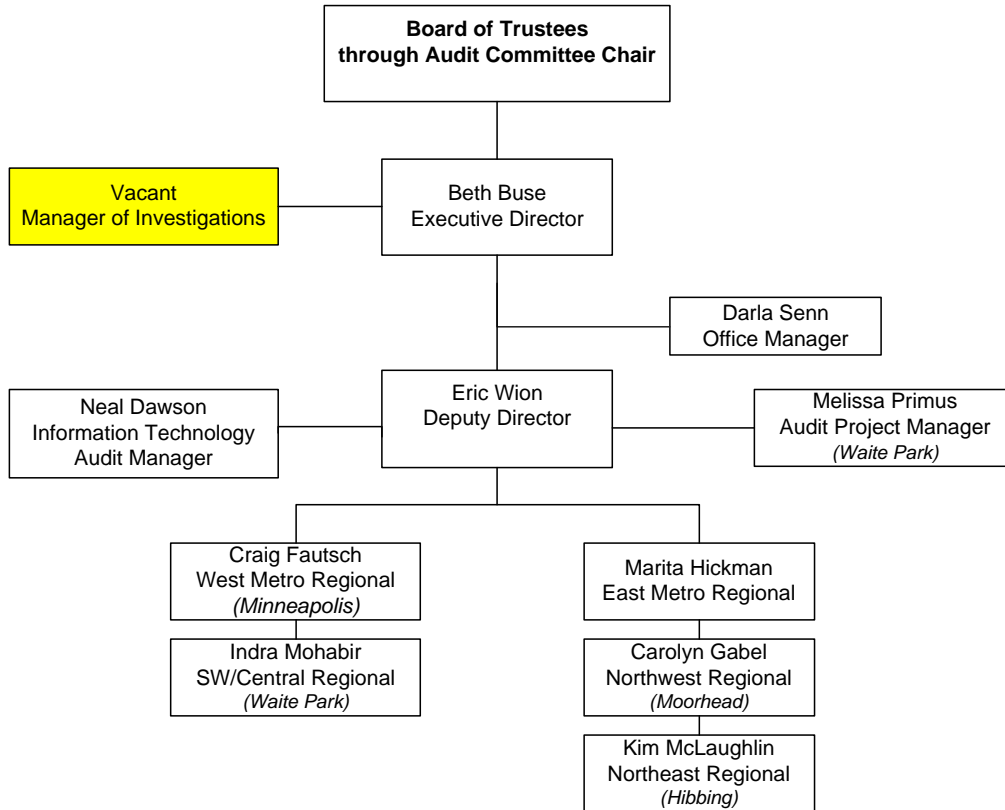
Internal Auditing completed an audit risk assessment that included strategic and operational risks during fiscal year 2014. While the risk assessment took into account risks across the organization in all functional areas, we completed a more intensive focus on financial and information technology risks. The results of the risk assessments were discussed with the Audit Committee in May. In addition, the results were taken into consideration in building the audit plan for fiscal year 2015.

V. Staffing

Figure 1 contains the organization chart for the Office of Internal Auditing as of July 1, 2014. The chart notes employees that are not located in St. Paul. The regional audit coordinators serve multiple colleges or universities located in their regions. Currently, we are working with human resources to create a new manager of investigations position (highlighted in yellow below) to help manage the

increased volume of fraud investigations within the Office of Internal Auditing, allowing other staff to focus on board approved projects.

**Figure 1 – Organizational Chart
Office of Internal Auditing**



Employees are highly qualified and on average have 20 years of auditing experience. Employees hold the following professional certifications:

- Certified Public Accountants – 7 employees
- Certified Internal Auditors – 2 employees
- Certified Fraud Examiners – 2 employees
- Certified Information System Auditors – 4 employees
- Certified Information System Security Professional – 2 employees

Table 2 provides a summary of how staff resources were used during fiscal years 2013 and 2014.

**Table 2: Percentage of Internal Auditing Staff Hours
Fiscal Years 2013 and 2014**

Audit Services and Time Categories	Fiscal Year 2014	Fiscal Year 2013
Internal Control and Compliance Audits	19%	22%
Information Technology Audits	11%	6%
Support on Financial Statement Audits	5%	7%
Follow-up on Prior Audit Findings	7%	8%
Investigations and Special Reviews	21%	14%
General Planning	3%	2%
Professional Advice	4%	5%
Administrative	10%	20%
Employee Benefits (Holidays, Vacation, Sick Leave)	20%	16%

Note: Time excludes executive and deputy director’s time

VI. The Future

In June 2014, the Board of Trustees approved an audit plan for fiscal year 2015 that takes into consideration the results of audit risk assessments and available audit resources. We will need to reassess priorities within the FY15 plan based on the protracted process to fill the investigation manager position and the extensive time it has taken to complete the special review at Metropolitan State University.

Audit plans and other information on Internal Auditing are available at the office website, www.internalauditing.mnscu.edu