

Minnesota State Colleges and Universities

# Fiscal Year 2016 Audit Planning



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## Minnesota State Colleges and Universities

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



# Overview

- Internal Audit Snapshot
- Audit Risk Assessment
  - *Methodology*
  - *Results*
- FY16 Internal Audit Plan
  - *Internal Auditing Projects*
    - Ongoing Services
    - Financial Internal Control and Compliance
    - Operational (non-financial)
    - Information Technology
  - *Other Internal Auditing Activities*
  - *External Audits, Evaluations, and Reviews*
  - *Administrative Items*
- **Approval of Audit Plan**

# Minnesota State Colleges and Universities

## Internal Audit Snapshot

- Where we were (2010 and prior)
  - Reliance on legislative auditor for financial internal control and compliance audits
  - Completed in-depth operational audits
  - Provided staffing support to external auditors (1+ position)
  - 9 audit staff
- Where we are today
  - Internal control and compliance audits (vertical)
  - Operational audits (horizontal)
  - Information Technology Audits
  - Investigation and support services increase
  - 10 audit staff



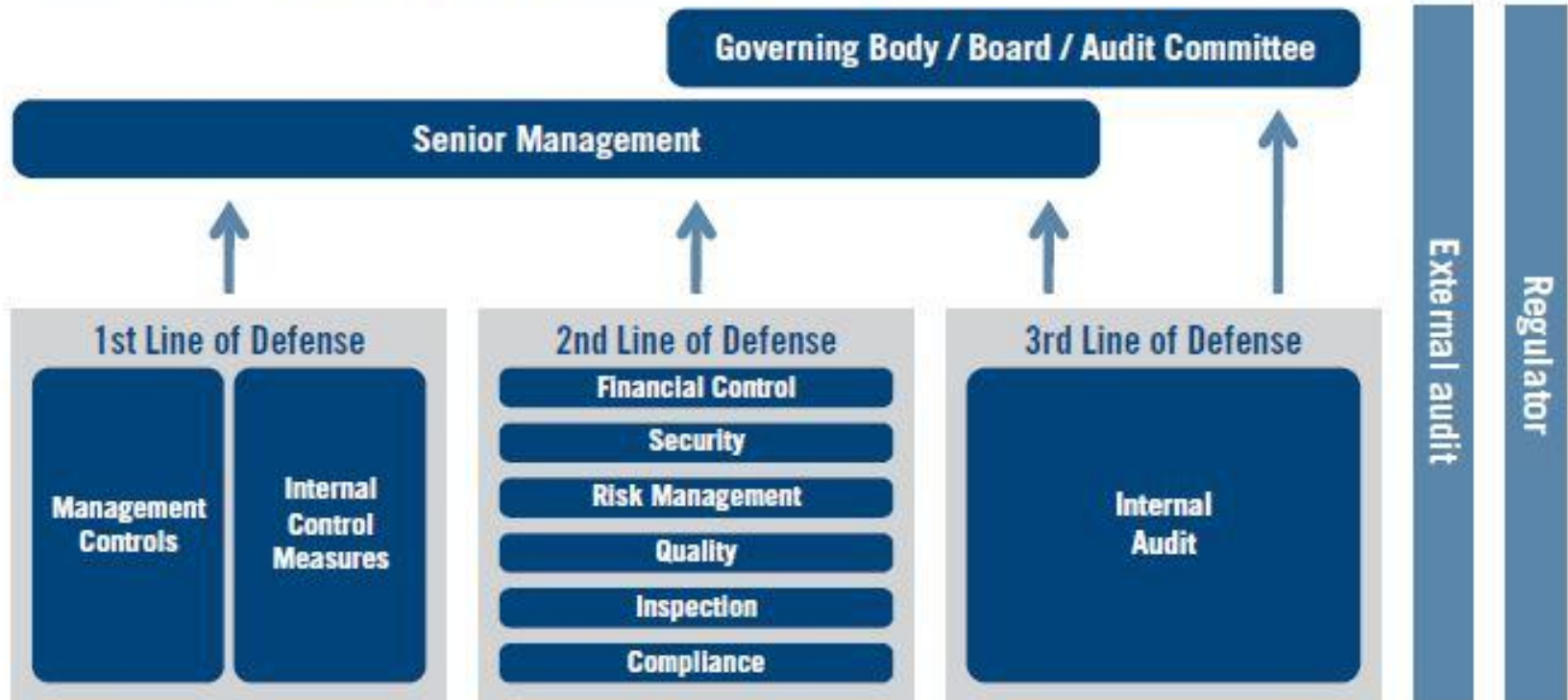
# Audit Risk Assessment - Overview

- 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
  - *Review of thought leadership on risks across sectors and specifically related to higher education*
  - *Review of Enterprise Risk Management study session*
  - *Discussions with stakeholders*
- Audit Risk Assessment Results
  - *Financial Audits*
  - *IT Audits*
  - *Non-financial Operational Audits*



# Operational Risk Management

## The Three Lines of Defense Model



Adapted from ECH/AFERMA *Guidance on the 8th EU Company Law Directive, article 41*



# 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.*
    - E.g. – Finance area – CFI metrics and financial resiliency work
- Third Line of Defense – functions that provide independent assurance
  - *Internal audit function*

# Thought Leader Themes Related to Risk

- All Industry Sectors
  - *Cyber security – ability to manage incidents*
  - *Regulatory changes and heightened scrutiny*
  - *Redesigning and rethinking business to respond to external forces*
    - Change resistance
- Higher Education Sector
  - *Changing student demographics*
  - *Sustainable financial model*
  - *Campus sexual assault*

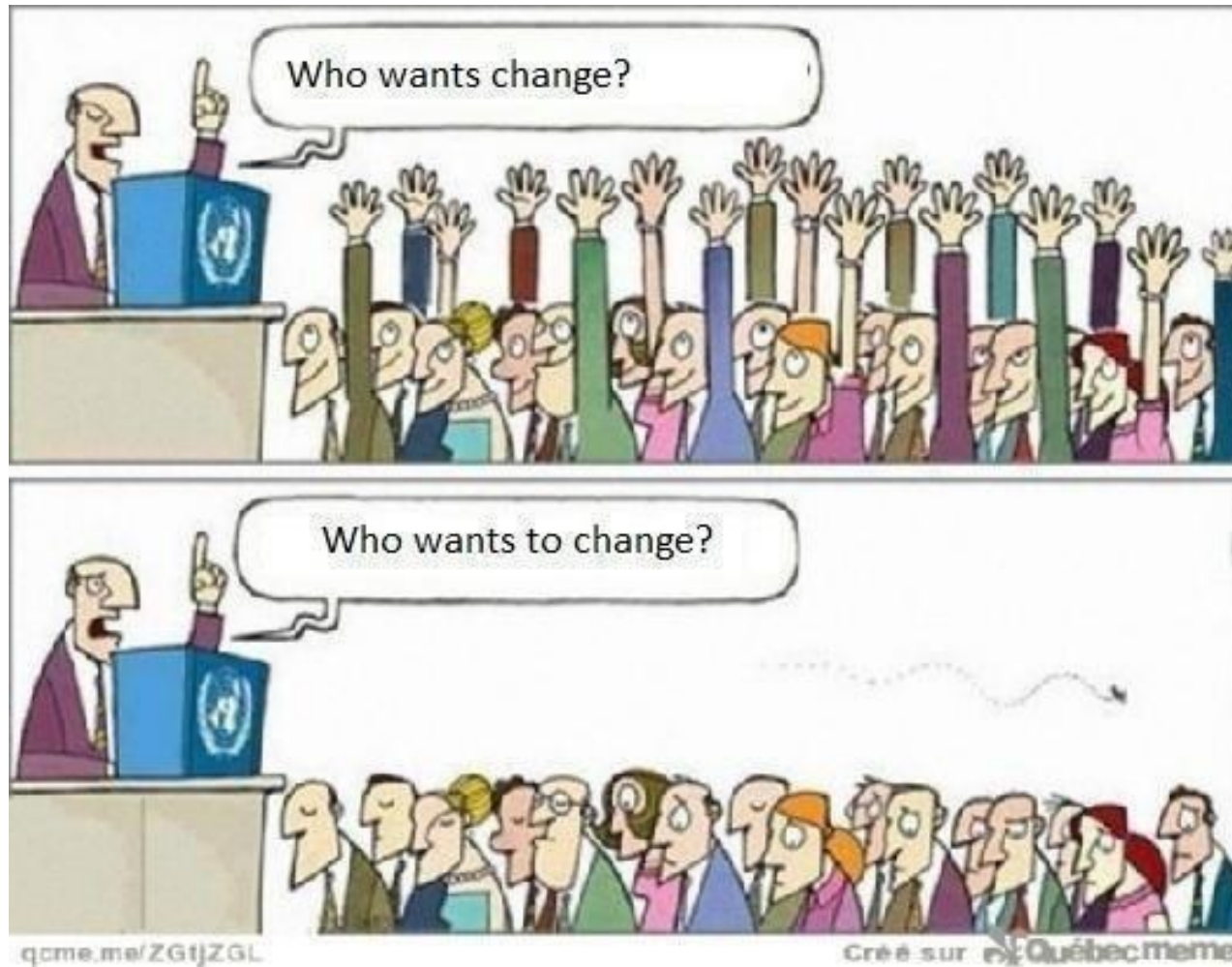




# Stakeholder Conversation Themes

- Passion for the organization, the work we do, and the impact to students and the State of Minnesota
- Need for change
- Cyber Security
- Enrollment trends and worries
- Resource constraints on staff
  - *Staffing changes, turnover, and additional demands on time – result in challenges to maintain basic functions*
  - *Concern around audit projects that may add additional work to already overloaded plates.*

# Change?



# Specific Operational Topics

- Academic
  - *Developmental Education*
  - *PSEO and concurrent enrollment*
- Regulatory Compliance
  - *HIPAA*
  - *Gainful Employment*
  - *Title IX*
  - *Payment card industry (PCI)*
- Human resources
  - *Pension administration*
  - *Workers compensation management*

# Specific Operational Topics cont.

- Facilities
  - *Staffing – succession planning*
  - *Environmental Health and Safety*
- Finance
  - *Bookstore operations*
  - *Allocation Formula*
  - *GASB 68 implementation (pensions) and impact to financial metrics*
- Other
  - *Campus Service Cooperative*
  - *Customized Training*
  - *Health Services*

# Financial Risk Management



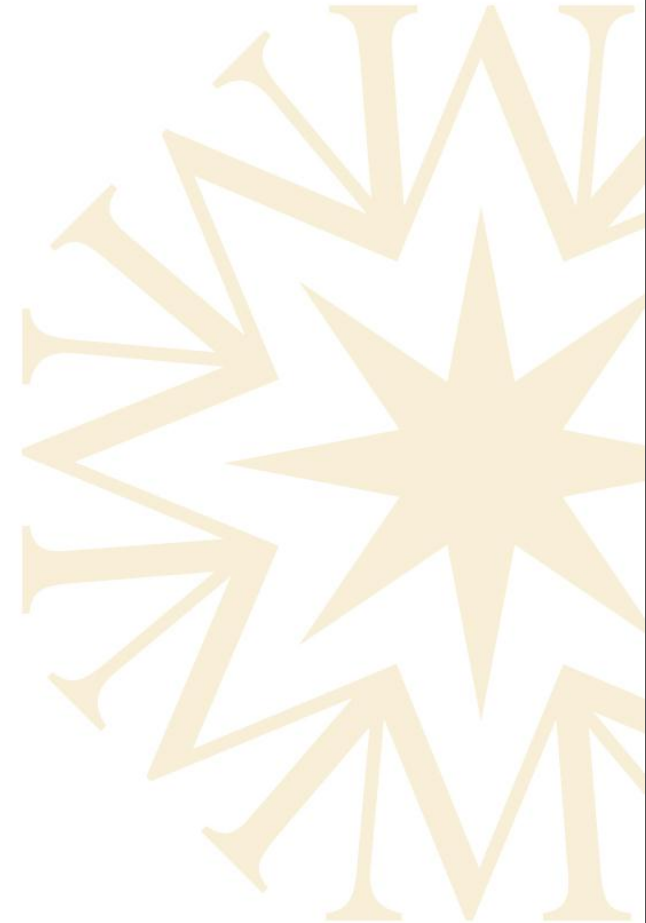
# Background

- January 2014 – Board approved a revised financial audit plan for system
  - *Reduced number of individual college and university financial statement audits*
    - Confidence in financial management of system
  - *Goal to Increase number of financial internal control and compliance audits*
    - Stakeholder desire – more frequent audits
    - Consideration of risks
- Risk Methodology
  - *Institution risk profile*
    - Review tool
  - *Functional area analysis*



# Institution Risk Profile - Assessment Tool

- Tool reviewed and modified in 2015
- Looks at individual colleges and universities and considers:
  - *Past audit activity*
  - *Financial metrics*
  - *Business operation areas*
- Professional judgement involved
- Used to assist in prioritizing internal control and compliance audits (*vertical*)

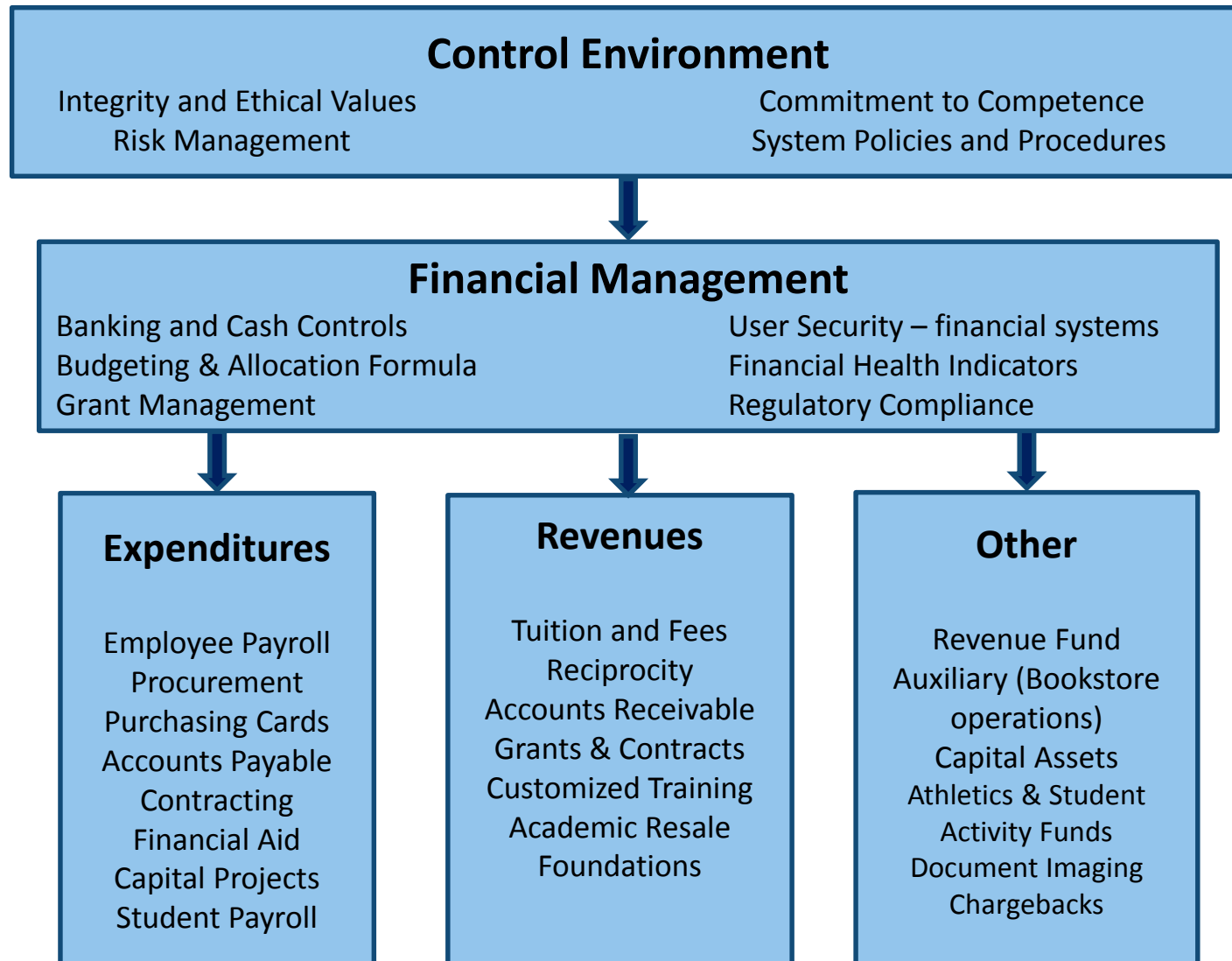


# Financial Risks:

## Institution Risk Model Observations

- Years since last internal control and compliance audit.
  - *Over 10 years = 5*
  - *6 – 10 years = 10*
  - *0 – 5 years = 23*
- Continuing increase in number of institutions with negative net operating income (FY14 = 27, FY13 = 20, FY12 = 10)
- Decrease in CFI by 22 institutions from FY13 to FY14 and 23 institutions from FY12 to FY13
- User level security
- Change in key personnel

# Financial Risks: Functional Areas



# Information Technology (IT) Risks



# 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

# Cost of a Breach

- Reputation
- Education industry average cost per record is \$225 (7<sup>th</sup> highest of 16 industries)\*
  - *Forensics consultants*
  - *Lawyer fees*
  - *Call centers*
  - *Websites*
  - *Mailings*
  - *Identity-protection and credit-check services*
  - *Additional security assessments and projects*

\* Source: Ponemon Institute report titled “2015 Cost of Data Breach Study: United States”



# Internal Audit - IT Risk Identification

- Discussions with IT professionals at the system office and some colleges and universities
- Attended annual MnSCU ITS conference
- Attended Educause Security Professionals Conference
- Attended monthly IT Risk Management Committee meetings
- Auditor brainstorming and input

# MnSCU Computing Environment

- System office manages wide area network and mission critical enterprise technologies
  - *Learning Management System (LMS)*
  - *Enterprise Resource Planning (ERP) system, ISRS, 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*

# 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, including cloud services

# Fiscal Year 16 Audit Resource Prioritization



# Audit Resources

- Internal
- External
- Second Line of Defense
- Resource Prioritization
  - *Financial*
    - Individual College and University
    - Functional
  - *Information Technology*
  - *Other Operational*
    - Compliance
    - Program areas



# Fiscal Year 2016 Audit Plan





# FY 2015 Audit Plan Update

- Plan delays
  - *Metropolitan special review*
  - *Vacant positions*
- FY15 audits (fieldwork completed but reports not issued)
  - *Clery Act compliance*
  - *Dakota County Technical College*
  - *IT security assessments at 4 sites*
- FY15 audit projects to be completed in FY16
  - *MSU, Mankato*
  - *Itasca Community College*
  - *International and study abroad programs*
- FY15 IT audit delayed until FY17
  - *System Office enterprise systems network security*

# FY16 Audit Planning Assumptions

- Available Resources
  - *Completion of FY15 audit work*
  - *Vacant position*
  - *Experienced team*
- Holding some resources open for additional projects that may come from
  - *Enterprise risk management discussions*
  - *Charting the Future implementation recommendations*
- Audit Plan Flexibility
  - *Update committee as changes are needed*

# Recommended FY16 Audit Projects

- Ongoing Assurance Services
  - *Monitoring progress on outstanding audit findings*
  - *Fraud inquiry and investigation support services*
- Financial Internal Control and Compliance Audits (vertical)
  - *Hennepin Technical College*
  - *Minnesota State Community and Technical College (M-State)*
- Operational Audits (horizontal)
  - *Bookstore*
- Explore use of targeted mini-audits
  - *E.g. user level security*

# Recommended FY16 Audit Projects cont.

- Information Technology Audits
  - *Third party/cloud computing services*
  - *Payment system security controls*
  - *Evaluate results of contracted for security assessments*
- Advisory Services
  - *IT risk management steering committee*
  - *Operational committees – finance user workgroup, financial aid*
  - *Assistance on strategic initiatives*
    - Campus Services Cooperative
    - Charting the Future implementation

# Other Internal Auditing Activities

- Improve data analytics capability
- Internal assessment
  - *Required by IIA standards*
- Review and revised board policies
  - *Policy 1C.2 Fraudulent and Other Dishonest Acts*
- RFP – master contract for investigation services
- Complete capital construction audit evaluation
- Review board expenditures



# External Audit Activity

- Coordinate Financial Statement Audits
  - *Systemwide and Revenue Fund*
  - *Four universities*
- NCAA Agreed Upon Procedures for Division II institutions
  - *Six state universities*
- Financial Aid Audits
  - *Federal*
  - *MOHE State*
  - *USDOE Program reviews*
- Other Required Audits
  - *Radio Station*
  - *Itasca Housing*
  - *Minnesota Job Skills Partnership Grants*
- OLA Audits: No known audits



# Administrative Items

- Staffing
  - *Review office organizational structure*
  - *Fill vacant position*
    - Investigator
    - IT Audit Manager
- Continuing replacement of administrative system
  - *Audit finding database used for tracking progress on outstanding audit findings*

# Recommendations for increasing internal control and compliance audits

- Considerations
  - *Additional position in FY15 to increase number of audits*
  - *Given current system office budget – not able to add additional resources to internal audit*
  - *Use of internal audit resources – IC&C versus other audit projects*
  - *CSC and other collaborations for common business practices*
- Recommendations
  - *Internal audit – current resources*
    - Explore use of additional data analytics to provide audit efficiencies
  - *Complete RFI/RFP for contract with outside resources*
    - Scope and reporting managed by internal audit
    - Funded by colleges and universities

# Fiscal Year 16 Auditing Budget

	Approved Fiscal Year 2014	Approved Fiscal Year 2015	Proposed Fiscal Year 2016
Salaries & Benefits	\$1,194,025	\$1,326,667	\$1,385,555
Non-salary	\$91,525	\$107,937	\$37,042
Total	\$1,285,550	\$1,434,604	\$1,422,597
Contract - CPA	\$578,684	\$367,540	\$397,620
Total Audit Costs	\$1,864,234	\$1,902,144	\$1,820,217

# FY16 Audit Committee Calendar

- Highlights
  - *October 2015*
    - FY15 audit project results
    - Annual report
    - Audit committee orientation
    - Closed Session: IT security briefing
  - *November 2015*
    - Follow-up discussion with Vice Chancellor Carlson and Interim President Malhotra on progress on recommendations from January 2015 Payroll special review
    - FY15 Financial statement audit results
  - *January 2016*
    - NCAA Agreed Upon Procedures external audit results
  - *April 2016*
    - Student financial aid audit results

# Questions?



# Recommended Committee Action

- **RECOMMENDED COMMITTEE ACTION**

*On June 16, 2015, the Audit Committee reviewed the Fiscal Year 2016 Internal audit plan and approved the following motion:*

- **RECOMMENDED BOARD OF TRUSTEES MOTION**

*The Board of Trustees approves the Office of Internal Auditing annual audit plan for fiscal year 2016.*

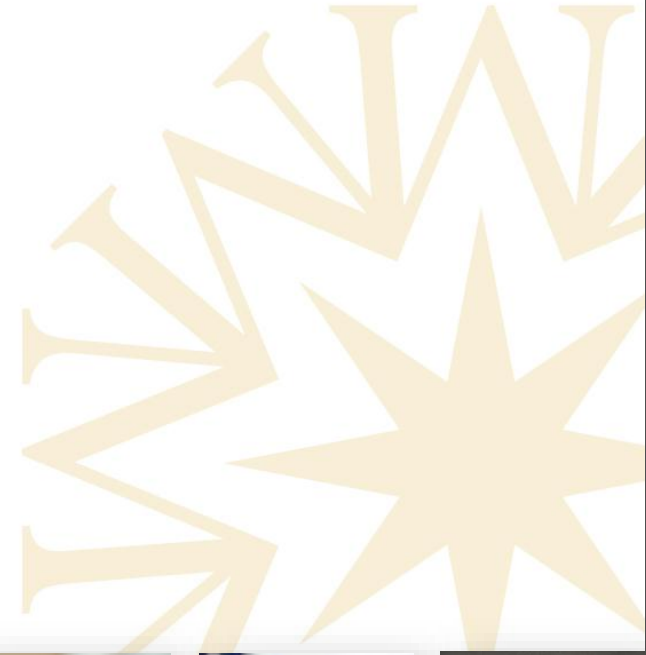


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