

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

**Agenda Item Summary Sheet**

**Committee:** Audit Committee

**Date of Meeting:** July 21, 2009

**Agenda Item:** Approval of FY 2010 Internal Auditing Annual Audit Plan

- Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring
- Information

**Cite policy requirement, or explain why item is on the Board agenda:**

Board Policy 1D.1, part 6, requires the Executive Director of Internal Auditing to present an audit plan for each fiscal year.

**Presenter at the Audit Committee meeting:**

John Asmussen, Executive Director, Office of Internal Auditing

**Outline of Key Points/Policy Issues:**

- As a result of budget reductions, consulting services are being eliminated and analytic services are being constrained.
- Internal Auditing services will concentrate primarily on delivering assurance and investigative support services. Priorities for these services are noted in the plan.
- Internal Auditing will monitor the results of various external audits and reviews of particular programs or affiliated organizations and recommend corrective actions when warranted.
- Further planning is needed for the timing and extent of future information technology audits.

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

<b>BOARD ACTION</b>
APPROVAL OF FY 2010 INTERNAL AUDITING ANNUAL AUDIT PLAN

**BACKGROUND**

According to Board Policy 1.D., Part 6, the Office Internal Auditing must submit an annual audit plan to the audit committee. The fiscal year 2010 audit plan is attached.

**COMMITTEE ACTION:**

On July 21, 2009, the audit committee reviewed the draft Fiscal Year 2010 Internal Auditing Plan and approved the following motion:

**RECOMMENDED MOTION:**

The Board of Trustees approves the Office of Internal Auditing annual audit plan for fiscal year 2010.

*Date Presented to the Board of Trustees: July 21, 2009*

**Minnesota State Colleges and Universities**  
**Office of Internal Auditing**  
**Fiscal Year 2010 Annual Audit Plan**

According to Board Policy 1D.1, Part 6, the Office of Internal Auditing must submit an annual audit plan to the audit committee. Professional internal auditing standards require that the audit plan be based on a risk assessment to ensure that audit resources are focused on the most critical projects.

The Office of Internal Auditing abides by the budget process for the Office of the Chancellor. Because of the dire economic conditions facing state government and the resulting reduction in state appropriations to the Minnesota State Colleges and Universities, the Office of Internal Auditing must absorb a 15% budget reduction from its fiscal year 2009 base budget. To achieve such a drastic reduction, the office offer only core assurance services in fiscal year 2010. The office will no longer have the capacity to provide consulting services at the request of the Chancellor or presidents. Also, IT analysis services will be shared with the Information Technology Services. Although the office will continue to monitor progress toward resolving audit findings, it will have very limited capacity to assist with the design of corrective actions. Its capacity to provide services to the Chancellor and the presidents, upon request, will be constrained.

**Priority Audit Areas**

For internal auditing purposes, a risk assessment is intended to support the selection of the highest priority projects using audit resources, specifically assurance services. It begins with identification of an audit universe which represents the population of potential audit areas, and leads to a selection of audit priorities for the year. For fiscal year 2010, the Office of Internal Auditing has identified the following priorities, with the estimated percentage of Internal Auditing staff resources noted for each area:

- I. **Comprehensive Assurance Services for Basic Financial Risks (25%).** Audit coverage for two areas must be approached strategically to ensure that reasonable controls are established as a foundation for programs and operations. The Office of Internal Auditing is obligated by current contracts to provide the following support for financial audits:
  - **Financial Statement & Financial Aid Audits** – In January 2009, the Board of Trustees approved an amendment to the strategic plan for external audit services, which originally had been approved in January 2005. This plan establishes the extent and frequency for auditing financial activities system-wide and at individual colleges and universities. In January 2009, the Audit Committee tentatively decided to add an additional college, Normandale Community College, to the annual audit cycle for fiscal year 2010. Also, the audit contract for the system's principal auditor expires during fiscal year 2010 and will have to be rebid. The current CPA firm serving as the principal auditor will have completed six years of continuous service and, as stipulated by board policy, will not be eligible to be reappointed for the next contract period.

- **Other Fiscal Audits** - The financial statements provide the basis for determining the significance or materiality of financial activities. Because the effectiveness of internal controls is subject to change and possible deterioration, it is essential that basic assessments of these controls be scheduled on a recurring basis. The significant financial activities of 20 colleges and the Office of the Chancellor are not subject to extensive audit coverage as part of the annual financial statement audits. To address this void in audit coverage, the system has contracted with the Office of the Legislative Auditor to audit these entities once every three years. That three-year cycle is subject to change if circumstances warrant a more accelerated schedule at a particular institution. Because of constraints on the Legislative Auditor's staff resources, beginning in fiscal year 2009, the Office of Internal Auditing began investing g staff resources to assist the Legislative Auditor, and maintain the current audit schedule. The final arrangements with the Legislative Auditor for financial audits during fiscal year 2010 must still be negotiated, but it is anticipated that it will require ongoing support from the Office of Internal Auditing.
- II. Monitor Progress toward Implementing Audit Findings (20%).** It is important that the Board of Trustees, Chancellor, and presidents have confidence that any problems revealed by audits or evaluations receive appropriate attention. Internal Auditing monitors progress toward implementing findings identified in financial audits identified in the previous section. It also monitors the results of a myriad of other audits and reviews identified later in this audit plan. Internal Auditing provides status reports on prior audit findings to the presidents and vice chancellors in January and June of each year. The Chancellor is informed about any unresolved audit findings as part of the annual presidential/Cabinet performance evaluation process. Finally, in its annual report to the Board of Trustees, Internal Auditing reports on progress toward resolving prior findings.
  - III. Reinforce and Assist with the Implementation of Board Policy 1C.2, Fraudulent or Other Dishonest Acts (20%).** Since the board approved Policy 1.C.2 in June 2002, Internal Auditing has worked with the Chancellor's Cabinet and presidential executive teams to implement its provisions. On July 1, 2008, a new Code of Conduct for employees was enacted as Procedure 1.C.0. Internal Auditing will continue to work with the Office of General Council on implementation of this new procedure. In these times of great uncertainty and change, it is reasonable to expect an increase in the number of issues that will require inquiries and possibly investigations. Accordingly, the amount of time reserved for this activity has been increased in this plan.
  - IV. Conduct Studies that have Significant System-wide Interest (20%).** Each year, Internal Auditing schedules a study of a topic of major system-wide interest. Recent studies have focused on affiliated foundations and implementation of student success systems. A study currently underway focuses on auxiliary revenue sources, with a final report expected to the Audit Committee in October 2009. It is anticipated that the Audit Committee will select the next system-wide study topic in January 2010.
  - V. Test Board and Chancellor Expenses for Legal Compliance (2%).** Internal Auditing conducts periodic reviews of expenses incurred by the Board of Trustees, and submits an annual audit report to the Executive Committee of the board through the Board Treasurer.

It also examines the Chancellor's expense reimbursements and special expenses on an ongoing basis to ensure compliance with fiscal policies.

**VI. Ad-hoc Services to address immediate concerns or interests (13%).** Planning cannot anticipate all future needs or interests. Accordingly, some audit resources must be reserved to direct Internal Auditing services to important issues that arise throughout the year. These services may take the form of participation on task forces, providing professional advice, or scheduling special projects when warranted.

- **Management Priorities** – The Office of Internal Auditing serves the Board of Trustees, Chancellor, and presidents. Accordingly, this plan allows for the Chancellor and presidents to request Internal Auditing services that address particular risks that they wish to be examined. To the extent that Internal Auditing has available resources after serving the interests of the Board of Trustees, it will undertake projects requested by the Chancellor and presidents.
- **Emergent Issues** – Internal auditing is constantly scanning the environment to be alert for risks that may require audit resources. Unforeseen programmatic or compliance matters may emerge and merit attention. As a result, some residual time must be reserved in this audit plan to allow for the use of Internal Auditing resources when important issues arise.

### **Monitoring Other External Audits, Evaluations, and Reviews**

In addition to the audit activities discussed in the previous sections, a variety of other external audits, evaluations, and reviews occur. Accordingly, Internal Auditing will monitor the results from the following activities and recommend corrective actions to the Chancellor, presidents, or the Board of Trustees, as warranted.

- **Legislative Auditor Program Evaluations** – In addition to its financial audit coverage, the Legislative Auditor may conduct periodic program evaluations, as selected by the Legislative Audit Commission. In March 2009, the auditor released an evaluation study on “MnSCU Occupational Programs”. The Audit Committee reviewed that report and the Executive Committee of the Board of Trustees assigned responsibilities to the Academic & Student Affairs and Advancement Committees for overseeing certain corrective actions. In April 2009, the Legislative Audit Commission approved a study of the Office of the Chancellor expenses and services. The Board Chair and Chancellor had requested that study. Internal Auditing is facilitating the efforts to cooperate with this study. A final evaluation report is expected in January 2010.
- **Audits of Grants and Special Financing Arrangements** – Some special grant or other funding sources have certain audit requirements that must be satisfied. State law requires that the Legislative Auditor review any audit contracts prior to their execution. The most common source of these requirements is the Minnesota Job Skills Partnership (MJSP) grants. Because of the volume and routine nature of the MJSP grants, the Legislative Auditor has agreed to permit Internal Auditing to review those audit contracts on its behalf. Other unique audit requirements, such as an audit arranged by Itasca Community College for a housing project financed with bonds sold by a County Housing and Redevelopment Agency, must be submitted directly to the Legislative Auditor for review.

- **Reviews Conducted by State and Federal Student Financial Aid Authorities** – The Minnesota Office of Higher Education conducts periodic reviews of the state grant and loan programs being administered by the colleges and universities. Most colleges and universities are examined once every three years as part of that process. Internal Auditing reviews these reports to determine whether findings indicate more systemic issues needing attention. Also, the U.S. Department of Education conducts ad-hoc program reviews and investigations of federal financial aid programs. The department schedules its reviews based on a risk assessment process and does not schedule routine reviews of each college and university.
- **Audits of Affiliated and Associated Organizations** – Board Policy 8.3 requires periodic financial audits of affiliated foundations. Also, other related organizations, such as the statewide student associations submit annual audited financial statements to the Office of the Chancellor. Internal Auditing will review these audit reports and determine the need to recommend any action by the Chancellor, Presidents, or Board of Trustees.

### **Audit Areas Needing Further Consideration – Information Technology**

Information technology (IT) controls are subject to basic audit coverage as part of the annual audit of the system-wide financial statements. In prior years, the Legislative Auditor had been able to supplement that coverage and conduct periodic audits of higher risk IT operational areas. Staffing turnover, though, has limited the IT audit capacity of the Legislative Auditor and it has not examined MnSCU IT controls since 2006. Since that time, MnSCU IT operations have undergone significant structural changes and taken on increased organizational importance.

The extent and timing of further audit coverage for information technology areas has not been determined. The Office of Internal Auditing will continue to work with the system's principal auditor, the Legislative Auditor, and the MnSCU Information Technology Division to develop a plan for achieving sufficient audit coverage of IT risks.