

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

Audit Committee

Date: October 23, 2013

Title: Review Annual Internal Auditing Report for fiscal year 2013

Purpose (check one):

- | | | |
|---|---|---|
| <input type="checkbox"/> Proposed
New Policy or
Amendment to
Existing Policy | <input type="checkbox"/> Approvals
Required by
Policy | <input type="checkbox"/> Other
Approvals |
| <input checked="" type="checkbox"/> Monitoring /
Compliance | <input type="checkbox"/> 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 FISCAL YEAR 2013

The annual report for fiscal year 2013 is attached.

Date Presented to the Board of Trustees: October 23, 2013

Internal Auditing Annual Report

Fiscal Year 2013

Office of Internal Auditing

October 10, 2013



Minnesota
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Minnesota
STATE COLLEGES
& UNIVERSITIES

Internal Auditing Annual Report Fiscal Year 2013

Office of Internal Auditing
Reference Number 2013-10-009

October 10, 2013

October 10, 2013

Members of the Board of Trustees

I am pleased to submit the annual report on the Office of Internal Auditing for fiscal year 2013 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 2012 provided the foundation for the internal auditing activities carried out in fiscal year 2013. Some noteworthy activities included:

- **Financial Internal Control and Compliance Audits:**
 - Banking Controls
 - Bemidji State University & Northwest Technical College
- **Information Technology Audits:**
 - Vulnerability Management
 - Enterprise Database Management System
- **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 2012.
 - 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 inquires 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 2013.

Financial Internal Control and Compliance Audits

Fiscal year 2013 was the second 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 functional area audits. The following audits were completed and discussed with the Audit Committee:

- **Banking Controls:** In April 2013, Internal Auditing released an internal control and compliance audit on banking controls.

MnSCU has over 130 local bank and investment accounts that over \$1 billion in receipts flow through annually. Each college, university, and the system office is responsible for internal controls related to local banking and investment activity.

Our audit concluded that MnSCU generally had adequate internal controls over banking activities and, for item tested, generally complied with finance related legal requirements. We did, however, identify some internal control deficiencies and noncompliance, most notably; institutions lacked guidance to help them determine the appropriate banking controls needed to adequately address evolving risks, particularly as technology continues to change. We also identified two areas for consideration by system leaders.

Considerations for System Leaders

- Evaluate overall system banking strategy to determine whether opportunities exist to save money on banking services, standardize banking practices and improve controls, as well as maximize earnings.
- Evaluate whether opportunities exist to develop more standardized practices to facilitate the timely reconciliation of local bank accounts and also consider whether there is an opportunity to provide bank reconciliations as a shared service through the Campus Services Cooperative.

- **Bemidji State University & Northwest Technical College:** In June 2013, Internal Auditing released an internal control and compliance audit of Bemidji State University and Northwest Technical College. .

The audit scope included fiscal years 2011, 2012, and 2013 through December 31, 2012. Our audit concluded that the university and college generally had adequate internal controls and for items tested, generally complied with MnSCU policies and finance-related legal provisions. However, the report did contain six internal control and compliance findings.

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. As resources permit the Office of the Legislative Auditor plans to have an audit presence within the system. The OLA did not issue any reports related to MnSCU in fiscal year 2013.

Information Technology Audits

Internal Auditing conducted the two planned audits of Information Technology Vulnerability Management and Enterprise Database Management System. These audits focused primarily on internal controls that help to protect the confidentiality, integrity, and availability of applicable computer systems and data. The results of the audits are being used to enhance the overall information technology and security program of the 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 2012 financial statements marked the twelfth year that the MnSCU contracted for an external audit of its financial statements. The external audit firm of CliftonLarsonAllen provided an unqualified (clean) opinion on the system-wide financial statements in December 2012.

At the system-wide 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, Rochester Community and Technical College had a “significant deficiency” related to the recording of lease revenue and the capitalization of expenditures related to improvements of the heating and cooling system.

Unfortunately the fiscal year 2012 audit of financial statements saw significant delays in the completion of audit work due to the implementation of a new accounting system at the State of Minnesota. The delays resulted in approximately \$40,000 in increased audit fees to the system.

- **ISEEK²:** MnSCU is the fiscal agent for ISEEK. A joint powers agreement requires an annual financial statement audit. January 2013 was the first time the Audit Committee was asked to review and recommend the release of the ISEEK financial statements. A material weakness was

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.

noted in the fiscal year 2012 financial statements due to a \$56,000 error in recording of accounts receivables.

- **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 2012. CliftonLarsonAllen LLP timely completed the audit work 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 three minor compliance findings but contained no questioned costs.

The results of CliftonLarsonAllen's work were incorporated into the State of Minnesota's Single Audit report that was released in July 2013, four months past the due date. The delays were a result of the State having difficulty producing timely financial statements following the switch to a new accounting system. It is important to emphasize that MnSCU timely completed fiscal year 2012 financial statements and audits.

Unfortunately, the United States Department of Education did impose sanctions on MnSCU colleges and universities because of the delayed submission of the FY2012 single audit.

- **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 2013 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 on the workforce program renovation and Hennepin Technical College on the Learning Resources Center & Student Service Center renovation. Honkamp Krueger has completed the majority of their work and plans to have final reports for both projects by the end of calendar year 2013. We will analyze the results of the pilot project and report the results to the Audit Committee in 2014.
- **NCAA Agreed Upon Procedure Reviews:** It was determined in fiscal year 2012 that all six state universities with intercollegiate athletic programs were not in compliance with a requirement that the universities have a financial agreed upon procedures review once every three years. To come into compliance, we contracted with the external audit firm responsible for financial statement audits at each of the six universities to complete the reviews by January 2013. The firms completed the work and reported results to university presidents. Issues were noted at a couple of universities which is in the process of being resolved. In the future, we plan to include this requirement in the RFP for external audit services.

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. Table 1 summarizes fiscal year 2013 activity:

Colleges and universities continued to make significant progress on resolving outstanding audit findings during fiscal year 2013. The increase in the number of finding additions is attributable to an increase in audit activity. As of June 30, 2013, there were 163 unresolved audit findings, all of which were in satisfactory progress³.

**Table 1: College and University Audit Finding Activity Summary
As of June 30, 2013**

	As of June 30, 2013	Previous Year Balances
Unresolved as of July 1, 2011	52	42
Additions – Fiscal Year 2012	367	154
Resolved – Fiscal Year 2012	(256)	(144)
Unresolved as of June 30, 2012	163	52

Status of Unresolved Findings

Satisfactory Progress	163	50
Unsatisfactory Progress	0	2

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

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

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, overhead projectors, smart phones, musical instruments, and equipment or inventory from technical college programs.
- **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.

The USDOE informed us, in the past year, of two indictments related to student financial aid fraud cases where we had worked closely with the Inspector General in providing documentation to help prepare their case.

- **Bank account incidents:** these types of incidents commonly include fraudulent checks being drawn on an account or attempts to gain unauthorized electronic access to an account. The Banking Controls audit completed during the year provided some recommendations that may help reduce the number of incidents in this area.
- **Employee Time Abuse:** Internal Auditing had a few incidents reported this year where employees claimed hours worked where evidence showed they had not. This is typically handled by supervisors as a personnel matter; however, these cases were more significant and did result in employee terminations.

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 both strategic and operational risks during fiscal year 2013. While the risk assessment took into account risks across the organization in all functional areas, we specifically focused on financial and information technology risks. The results of the risk assessments were discussed with the Audit Committee in June. In addition, the results were taken into consideration in building the audit plan for fiscal year 2014.

V. Quality Assurance Review

The Office of Internal Auditing underwent an external quality assessment in late February 2013. The Institute of Internal Auditors standards require internal audit organizations to undergo an external quality assessment review at least once every five years. The main objectives of the assessment were to assess conformance with the *Standards*, the Code of Ethics, and the Definition of Internal Auditing; to identify opportunities, offer recommendations for improvement, and provide counsel to the chief audit executive and staff for improving their performance and services; and to assess the effectiveness of OIA in providing assurance and consulting services to the board, senior management, and other key stakeholders.

We contracted with Basil Woller and Associates, LLC to complete the external assessment and his overall assessment was:

Internal Auditing is generally in conformance with the Standards, the Code of Ethics, and the Definition of Internal Auditing. They demonstrated a strong commitment to exceeding the basic requirements of the Standards and are focused on enhancing quality through continuous improvement. Their annual risk assessment process focuses activities in areas of highest risk and impact consistent with the strategies and objectives of MnSCU. Internal Auditing has qualified staff that performs their work in a competent and high quality manner and infrastructure that supports consistent performance of the Internal Auditing activities. They are an integral part of the governance process for MnSCU and are valued by stakeholders including the Audit Committee. They operate in a very dynamic environment and their ability to adapt and be responsive to change, combined with their ability to leverage insight on risks impacting the organization into focused audit plans, is critical to their success and value to the organization.

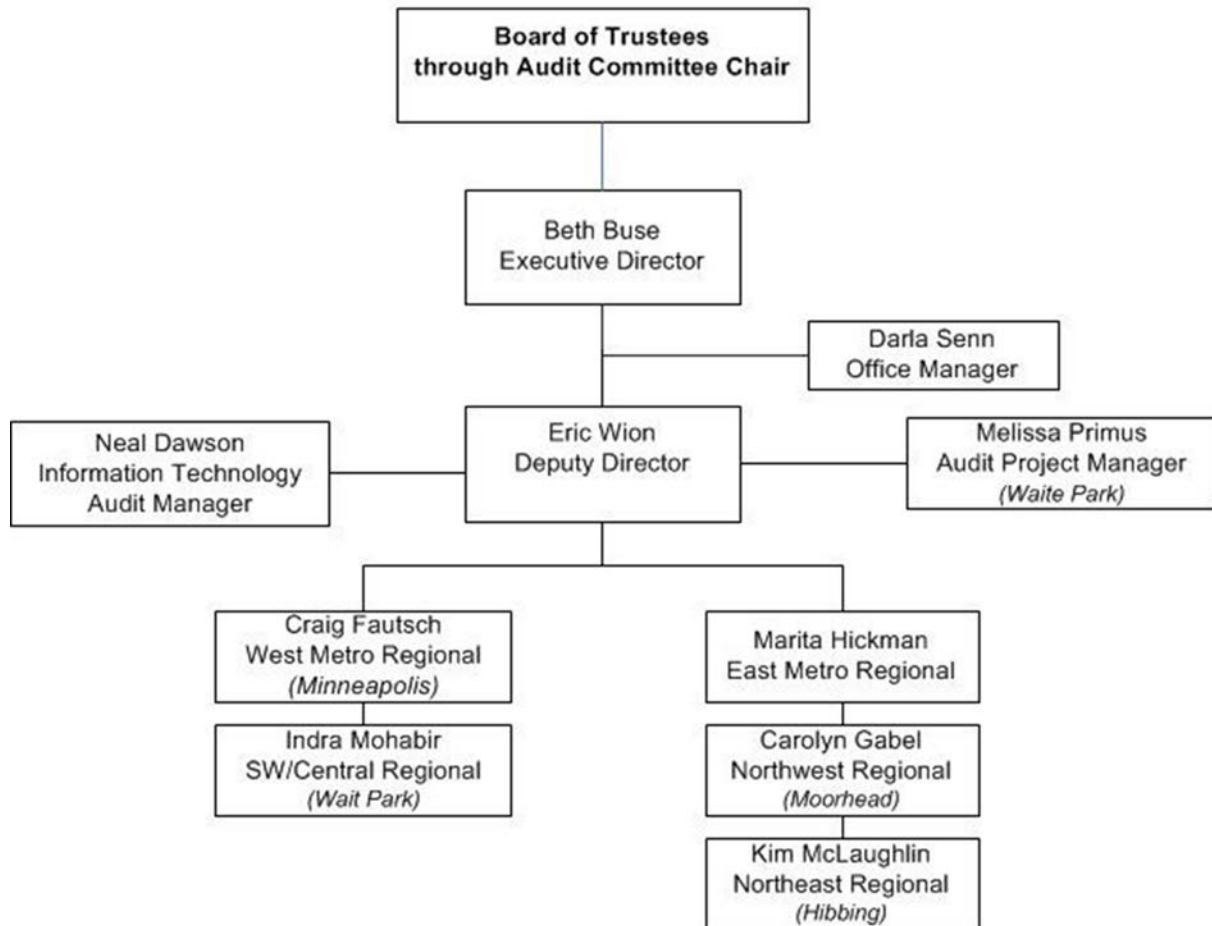
The review did identify some continuous improvement opportunities and a couple of technical changes that need to be made to the audit charter contained in Board Policy 1D.1. We plan to address all of these recommendations during fiscal year 2014.

VI. Analysis of Staff Hours

Figure 1 contains an organization chart for the Office of Internal Auditing. The chart notes employees that are not located in St. Paul. The regional audit coordinators serve multiple colleges or universities located in their regions. In the past year, the office added an audit project manager position to help manage the increasing numbers of audit projects. Table 2 provides a summary of how technical staff resources were used during fiscal years 2010 through 2013.

Figure 1

Minnesota State Colleges and Universities Office of Internal Auditing



**Table 2: Percentage of Internal Auditing Technical Service Staff⁴ Hours
Fiscal Years 2010 - 2013**

Service	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010
Financial Internal Control and Compliance Audits	35%	32%	3%	14%
Information Technology Audits	10%	3%	0	0
Audited Financial Statements	11%	14%	27%	23%
Follow-up on Prior Audit Findings	12%	13%	34%	28%
Fraud Inquiry and Investigation Support	22%	22%	17%	11%
Professional Advice	7%	8%	7%	8%
Planning	2%	6%	6%	0
Other Internal Auditing Assurances	1%	2%	6%	7%
Non-Financial Systemwide Audits	0	0	0	9%

The Future

In June 2013, the Board of Trustees approved an audit plan for fiscal year 2014 that takes into consideration the results of audit risk assessments and available audit resources. Audit plans and other information on Internal Auditing are available at the office website, www.internalauditing.mnscu.edu.

⁴ Excludes executive and deputy director hours.