

Minnesota State Colleges and Universities
Fiscal Year 2015 Audit Plan



Beth Buse, Executive Director, Internal Auditing

June 18, 2014

Minnesota State Colleges and Universities

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

Overview

- Highlights and Discussion on Audit Risk Assessment Results
- 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

Audit Risk Assessment Summary

- Presented to Committee in May 2014
- Focus Risk Areas
 - Strategic
 - Overall Operational
 - Financial
 - College and university risk model
 - Functional areas
 - Information Technology

Discussion Points

- Missing risk areas?
 - Culture – ‘tone at the top’
 - Enrollment
- Other considerations?
- Given limited internal audit resources, what projects should internal audit focus on in fiscal year 2015?



Proposed Fiscal Year 2015 Audit Plan



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FY15 Audit Projects

- Ongoing Assurance Services
 - Monitoring progress on outstanding audit findings
 - Fraud inquiry and investigation work
 - Creating position to focus in this area
- Financial Internal Control and Compliance Audits
 - Institution Audits
 - Minnesota State University, Mankato
 - Minneapolis Community and Technical College
 - Dakota County Technical College
 - Itasca Community College
 - Functional Areas
 - Complete grant management project



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FY15 Audit Projects cont.

- **Operational Audits (non-financial)**
 - Academic Topic: International and Study Abroad Programs
 - Regulatory Compliance Topic: Clery Act
- **Information Technology Audits**
 - College and university controls over computers and networks allowed access to the enterprise data warehouse
 - High-level security assessments of key controls at four institutions
 - Network security controls for enterprise computer systems
- **Advisory Services**
 - Campus Services Cooperative
 - IT guidelines working group



Other Internal Auditing Activities

- Evaluate results of capital construction audit pilot
- Fulfill recommendations from January 2014 revised Financial Audit Plan
- Review and revised board policies
 - Policy 1D.1 Office of Internal Auditing
 - Policy 1C.2 Fraudulent and Other Dishonest Acts
- Review board expenditures



External Audit Activity

- Coordinate Financial Statement Audits
 - Systemwide and Revenue Fund
 - Four universities
- Financial Aid Audits
 - Federal
 - State
- Other Required Audits
 - Radio Station
 - Itasca Housing
 - Minnesota Job Skills Partnership Grants
- OLA Audits: No known college and university audits



Administrative Items

- Fill Vacant Position
 - Investigator
- Continuing replacement of administrative system
 - Audit finding database used for monitoring progress
- FY 15 Office of Internal Auditing Proposed Budget
 - Note changes from FY14
- Proposed Audit Committee Schedule
 - Best Practice: Closed session to discuss IT security



Recommended Committee Action

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- **RECOMMENDED COMMITTEE ACTION**

On June 18, 2014, the Audit Committee reviewed the Fiscal Year 2015 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 2015.



Minnesota State Colleges and Universities

Construction Audit Pilot

June 18, 2014



HONKAMP KRUEGER & CO, P.C.

CPAs & Business Consultants

Introduction of HK

Top 100 CPA & business consulting firm in the U.S.

Second fastest growing CPA firm in the Midwest (Accounting Today – March 2014)

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TOP100FIRMS



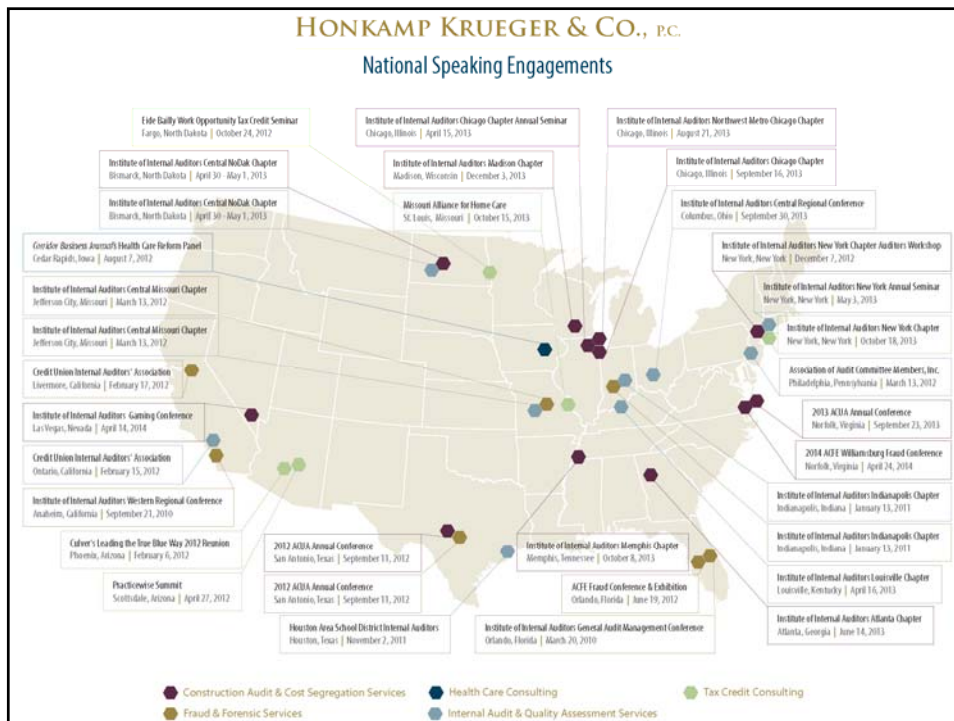
40+ Services...and Counting

Accounting	ID theft protection
Asset management	IT risk services
Audit	Marketing consulting
Brokerage	Mergers & acquisitions
Business consulting	Not-for-profit & government services
Business litigation	Payroll services
Business valuation	Retail advisory services
Compliance services	Quality assessment services
Construction audit services (CAS)	R & D tax credits
Cost segregation	Retirement plans
Dependent eligibility consulting	Risk management & insurance
Employee assessments	Software solutions
Employee benefit plan audit	SSAE 16 (SOC)
Employment tax credits	State & local tax (SALT)
Estate planning	Strategic planning
Financial planning	Succession planning
Fraud & forensics	Talent outsourcing
Health care provider consulting	Tax planning & preparation
Health care reform consulting	Training consulting
Human resources consulting	Video production & event planning
Internal audit	Wealth management



Construction Audit Services Background

- HK's National Construction Audit Practice holds the distinction of having more licensed CCAs and CCPs than any other firm in the USA (NACA – May 2012)
- Over **60 years** of combined construction audit experience
- HK's team of senior-level construction audit professionals **regularly lecture and train** at various professional conferences/seminars (i.e. Association of College and University Auditors, The Institute of Internal Auditors, Association of Certified Fraud Examiners)
- All CAS team members are members of the National Association of Construction Auditors (NACA)
- All CAS team members have extensive experience auditing large construction projects, and assisting organizations with the creation and interpretation of construction contracts



Experience

Matt R. Gardner, CCA, CICA

Matt's extensive lecturing and training experience on the subject of Construction Auditing includes the **Association of College & University Auditors (ACUA)** annual conference in 2012 and 2013, as well as **The Institute of Internal Auditors (IIA)**, the **Association of Audit Committee Members, Inc. (AACMI)**, the **Association of Certified Fraud Examiners (ACFE)**, and the **National Retail Federation (NRF)**. Matt is also a member of the **National Association of Construction Auditors (NACA)**, which is strongly committed to providing resources, information, and leadership to ensure the highest standard of construction controls.



Matt has worked on various projects in a diverse range of industries and service sectors, including many government, healthcare, and Fortune 50 organizations. Matt's most knowledgeable service sector is higher education. Higher education organizations Matt is currently or has recently worked with are :

- Northwestern University
- University of Minnesota
- Washington University
- Emory University
- The University of Missouri



Construction Audit Services How We Add Value

- Identifying overcharges, non-allowable and other miscellaneous disputable charges – We are typically able to identify overcharges of between one and five percent of the project cost, depending on the size and type of contract audited.
- Cost avoidance – HK can help you negotiate a favorable contract, identifying critical tasks for your internal team. Our involvement during the planning stage can result in more savings than if we perform a stand-alone, close-out audit.



Construction Audit Services How We Add Value (Continued)

- Identifying and managing risks – We identify and prioritize risks, and provide recommendations for managing those risks.
- Developing and maintaining financial controls – We provide recommendations on ways to improve upon owner and contractor controls along with related policies and procedures.
- Avoiding litigation – We help you avoid the time-consuming and costly litigation process, since well-managed and controlled projects result in fewer conflicts.



Sample List of Higher Education and Fortune 100 Clients



Construction Audit Pilot

- Projects selected based upon construction delivery method and contract type
 - Hennepin Technical College – Learning Resource Center & Student Service Center Renovation
 - Design/Bid/Build – Lump Sum agreement
 - Final contract cost – \$8,693,908
 - Minneapolis Community and Technical College – Workforce Program Renovation
 - Construction Manager at Risk – Guaranteed Maximum Price agreement (New to System)
 - Final contract cost – \$12,623,769



Construction Audit Objectives

- Review contract language for potential weaknesses, vulnerability, and potential for cost overruns and/or unallowable charges
- Review costs paid by the institutions to general contractors/subcontractors for adherence to contract requirements and accuracy
- Validate prevailing wage requirements were met
- Ensure project management's processes and procedures are in place to successfully manage, monitor, and execute construction projects



Construction Audit Results

- Hennepin Technical College
 - Costs Audited: \$669,076 (Change Order Costs)
 - Cost Recovery Opportunities Identified: \$32,937
- Minneapolis Community and Technical College
 - Costs Audited: \$12,623,769 (All Project Costs)
 - Cost Recovery Opportunities Identified: \$27,252
- Note: Negotiations between the institutions and respective general contracts are still in progress



Construction Audit Results (Continued)

- Detailed requirements on how change orders should be executed and processed should be enhanced.
- Contract language should be updated to ensure the utmost in owner protection
 - Change order language
 - General conditions language
 - Agreed upon labor rates
 - Non-jobsite related charges language
- Competitive bidding requirements for contractor performed work
- Consistency in project management team and proper knowledge transfer



Considerations

- Lack of defined requirements regarding change orders lead to potential money left on the table
- MCTC utilized a large/well known general contractor who frequently encounters strong owner oversight (including audits) on projects
- HTC experienced project management turnover on both the owner and general contractor teams



Moving Forward

- Emphasis should be placed on updating contract language to ensure the utmost in owner protection and increased efficiency in construction auditing procedures
- Audit participation should begin prior to contract signing to 'set the tone' and assist in negotiating contract budgets, labor rates, cost prevention language
- Audit can be used as a tool to effectively review costs 'real time' as they are incurred to assist the project management function





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