Minnesota State Colleges and Universities
Office of Internal Auditing
Annual Audit Plan
Fiscal Year 2008

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. As a result, this audit plan is built on the premise that Internal Auditing will have the same staffing level as in fiscal year 2007.

An overview of the internal auditing activities proposed for fiscal year 2008 is attached at the end of this plan. Further explanation of these internal auditing activities and planned coordination with the external auditors is presented in the following paragraphs.

RISK ASSESSMENT

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. The MnSCU Office of Internal Auditing identifies a multi-faceted audit universe. For fiscal year 2008, Internal Auditing has added a separate risk component for information technology activities. This addition was recommended by the external quality assessment that Internal Auditing received in March 2007.

The risk assessment has been reorganized to group potential audit projects into the following three categories:

I. Comprehensive Assurance Services for Pervasive, System-wide Risks. Audit coverage for two areas must be approached strategically to ensure that reasonable controls are established as a foundation for programs and operations.

- **Financial Activities** – In January 2005, the Board of Trustees approved a strategic plan for external audit services. This plan established the extent and frequency for auditing financial activities system-wide and at individual colleges and universities. The Executive Director of Internal Auditing and the Vice Chancellor for Finance intend to review the plan in the coming year and offer recommendations to the Audit Committee on whether further modifications are warranted for future financial 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 most significant financial activities (system-wide financial statements and federal financial aid, and 12 largest colleges and universities) are scheduled for audit review by external auditors on an annual basis. Internal auditing supports those annual audits. The significant financial activities of the other 20 colleges and universities and the Office of the Chancellor are scheduled for an audit review once every three years by the Office of the Legislative Auditor. That three-year cycle is subject to change if circumstances warrant a more accelerated schedule at a particular institution.

- **Information Technology** –Appendix A proposes a framework for developing a comprehensive plan for auditing information technology activities. This framework has been developed in conjunction with the MnSCU Information Technology Services Division and has been previewed by the Leadership Council Technology Committee.   The Executive Director of Internal Auditing will continue to work with the Vice Chancellor for information Technology on developing a proposed plan for Information Technology audits. The plan will be submitted for review and approval by the Audit Committee later in calendar year 2007.

II.   Selected Assurances Services for Other Compliance and Reporting Risks. Audit coverage for other areas should be selected based on system priorities and criticality of information needed for making system-wide decisions.

- **Reliability of Accountability Measures** – As the organization moves closer to identifying its priority accountability measures, the criticality of having reliable data underlying those measures is heightened. Reliability is concerned with the consistency, stability and precision of data. In 2007, Internal Auditing began a major project focused on the reliability of student success data, a vital centerpiece to the System-wide Accountability Framework. Additional assurances may be desired for other accountability measures selected by the Board of Trustees. An Ad-hoc Task Force is in the process of examining system-wide accountability and will provide its recommendations to the Board of Trustees in November 2007.

- **Board Policy Compliance** – Board Policies and Chancellor Procedures are important mechanisms for governing institutional practices. Compliance related to finance and information technology activities will be considered as part of the audit plans identified in the preceding section. Based on a methodology developed in fiscal year 2006, the following board policies (excluding finance and information technology areas) were identified as the potential assurance projects that had the highest potential from a compliance perspective:

    o 2.6 Intercollegiate Athletics
    o 3.2 Academic Program Inventory
    o 3.21 Undergraduate Credit Transfer
    o 3.4 Admissions

- o 3.26 Intellectual Property
- o 3.3 Student Assessment
- o 3.5 Post-secondary Enrollment Options
- o 4.9 Employee Evaluation

Potential assurance projects could focus on system-wide compliance with an entire policy or only certain components of interest.

III. Ad-hoc Assurance Services to address immediate concerns or interests.
Planning cannot anticipate all future needs or interests. Accordingly**,** some audit resources must be reserved to direct assurance services to important issues that will be identified later in the fiscal year.

- **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 assurance or consulting 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. An example of emergent risks that require internal auditing services periodically are investigations. Other unforeseen programmatic or compliance matters also may emerge as meriting audit resources. As a result, much of this audit plan has been designed with the flexibility to allow for a reassignment of resources when more pressing issues arise.

SERVICES TO THE BOARD OF TRUSTEES

The Board of Trustees created the Office of Internal Auditing to assist with fulfilling its fiduciary responsibilities. Based on a combination of requests from the board and the governance challenges faced by the Board of Trustees, Internal Auditing proposes to provide the following menu of assurance services to the board for fiscal year 2008:

- **Support External Auditors** – Internal Auditing has ongoing responsibilities for supporting the external auditors that examine the system-level financial statements and federal financial assistance programs and the 12 stand-alone institutional financial statements. This effort ensures that contracts with external auditors are affordable and that external auditors consider high risk financial transactions.

- **Test Board Expenses Quarterly for Legal Compliance -** Internal Auditing has conducted quarterly audits of board expenses for several years. These reports were originally requested by a former board chair and are now provided to the Executive Committee in conjunction with quarterly budget reports.

- **Monitor Progress toward Implementing Audit Findings** - It is important that the Board of Trustees have confidence that any problems revealed by audits receive appropriate attention. Internal Auditing monitors progress toward implementing findings identified in audits of financial statements and foundations conducted by CPA firms, financial and information technology controls audited by the Legislative Auditor, projects completed by the Office of Internal Auditing, state financial aid audits conducted by the Minnesota Office of Higher Education, and program reviews of financial aid conducted by the U.S. Department of Education. It will provide exception reports to the board if adequate progress is not made toward resolving prior audit findings.

- **Reinforce Implementation of Board Policy 1C.2, Fraudulent or Other Dishonest Acts –** 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.

- **Conduct studies that have significant system-wide interest** – Each year, Internal Auditing schedules a study of a topic of major system-wide interest. The risk assessment identifies some high potential projects that Internal Auditing could study in fiscal year 2008. Internal Auditing will recommend a project topic to the Audit Committee later in calendar year 2007.

Although most services provided to the board are in the form of assurance services, the Office of Internal Auditing makes consulting services and professional advice available to the Board of Trustees as requested. For example, Internal Auditing has assisted with planning Board of Trustees retreats in the past.   Internal Auditing also reports to the board any significant violations of board policy or law, as required by Board Policy 1D.1.

SERVICES TO THE CHANCELLOR

The Office of Internal Auditing is committed to supporting the strategic directions developed by Chancellor McCormick. Chancellor McCormick has requested Internal Auditing to complete a quarterly review of his travel and expense account (similar to the testing of board expenses). Other specific internal auditing activities will be designed to correlate to Chancellor McCormick's work plan, as appropriate.

Internal Auditing activities designed to assist the Chancellor include:

- **Facilitate reviews of preparedness for presidential transitions** - Internal Auditing coordinates the work of cross-functional work teams from the Office of the Chancellor on these reviews. Transition reviews will be scheduled as presidential vacancies occur. Internal Auditing facilitated transition reviews of St. Cloud State University and Normandale Community College in fiscal year 2007.

- **Conduct fraud investigations, as requested** – Pursuant to Board Policy 1C.2, Internal Auditing services are available upon request of the Chancellor to conduct fraud investigations. These services are provided on an ad-hoc basis when and if fraud inquiries warrant investigations.

- **Assist Cabinet members with high risk areas** – Internal Auditing assists Vice Chancellors and other Cabinet members with addressing concerns about a variety of high risk areas. For example, at the request of the Vice Chancellor for Information Technology, Internal Auditing is represented on system-level committees concerned with IT security. The Executive Director of Internal Auditing actively supports the efforts of the other vice chancellors and the Executive Director of Diversity and Multiculturalism, and the Executive Director of the MnSCU Foundation.

- **Support Ongoing Monitoring Activities** – Internal Auditing reports the status of unresolved audit findings to presidents at least twice per year. Also, a status report is provided to the Chancellor at the end of the fiscal year. The Chancellor uses the report as part of the annual presidential performance review process.

SERVICES TO PRESIDENTS

As provided by Board Policy 1D.1, Internal Auditing services are available to college and university presidents upon request. The policy permits the communication of the results of these request services directly to presidents. Only significant violations of board policy or legal requirements, discovered during the project, would have to be communicated directly to the Board of Trustees. Assurance service projects have included topics such as budget and spending practices, financial operations, grant compliance, and cost studies.

In addition, the office has created an array of consulting services that are offered to colleges and universities. Past consulting projects have offered the following services:

- Facilitation services,

- Self-assessment workshops,

- Process mapping, flowcharting, and polarity maps,

- Organizational and process redesign services,

- Climate surveys, and

- Assistance with designing solutions to complex audit findings.

Internal Auditing also offers investigative and inquiry support services to presidents, as requested. Professional advice is available to any interested stakeholders.

Budget constraints require Internal Auditing to be selective about supporting presidential requests for assurance and consulting services.

COORDINATION WITH EXTERNAL AUDITORS

The Office of the Legislative Auditor (OLA) has been a primary source of external auditing services for the System. Since shortly after the 1995 merger, the System has had a contract with the OLA to conduct financial audits of each college and university over a three year schedule. With the hiring of CPA firms to conduct financial statement audits, the role of the OLA has changed. The Legislative Auditor services now focus on the smaller colleges and universities that do not have annual CPA audits.

In April 2007, the Board of Trustees selected the firm of Kern, DeWenter, Viere & Company (KDV) to serve as the principal auditor of the system for the next three years. KDV will audit the comprehensive system financial statements, Revenue Fund financial statements, and federal financial assistance programs for the fiscal years 2007 – 2009. Internal Auditing works closely with KDV and provides significant technical assistance for this important project.

Internal Auditing also works closely with the CPA firms that audit the seven state universities and five of the largest colleges. The Executive Director of Internal Auditing negotiates service level agreements with each firm to ensure that audit resources are used efficiently and effectively.

TENTATIVE FY 2008 AUDIT COMMITTEE SCHEDULE

September 2007
- Review Legislative Audit Results
- Review Internal Audit of Student Success Data
- Review Internal Auditing Annual Report
- Approve Financial and Information Technology Audit Plans
- Discussion of the Roles and Responsibilities of the Audit Committee (Board Policy 1A.2, Part 5, Subpart E)

November 2007
- Review and Approve Release of Audited Financial Statements

March 2008
- Select External Auditors for Institutional Financial Statement Audits
- Review Results of Annual Student Financial Aid Audit

May 2008
- Approve FY 2009 Internal Auditing Audit Plan

Primary Client	Professional Services									
	Assurance	Hours	Consulting	Hours	Fraud	Hours	Professional Advice	Hours	Planning and Development	Hours
Board of Trustees (48%)	Audited Financial Statements	2,400								
	Follow-up and other Audit Services	1,700								
	Expense Reviews	200								
	System-wide studies	3,000								
Chancellor and Presidents (43%)	Presidential Transition Reviews	200	Request Work – Chancellor	900	Inquiries and Investigations	1,200	Contacts and Questions	1,200	Project Development	200
	Request Work – Chancellor	1,200	Request Work - Presidents	900						
	Request Work - Presidents	800								
General (9%)							Roundtables and Task Forces	400	Relationship Building	200
									On-going Risk Assessment	300
Totals		**9,200**		**1,800**		**1,200**		**1,600**		**700**
		64%		12%		8%		11%		5%

Major Projects Planned for fiscal year 2008

1. Support external auditors, Office of the Chancellor, and campuses with Financial Statement Audits

2. Support Board of Trustees with implementing governance initiatives, such as indicators, monitoring, etc.

3. Continue with implementation of policy on "Fraud and Other Dishonest Acts."

4. Conduct system-wide study of significant area (topic to be selected later in 2007).

5. Support functional responsibilities subject to the oversight of the Vice Chancellors.

Other projects to be developed during fiscal year 2008

1. Supporting the priority needs of presidents and the Office of the Chancellor.

Minnesota State Colleges and Universities – Office of Internal Auditing
Fiscal Year 2008 Audit Planning

Information Technology Audit Risk Assessment Planning Framework

The Office of Internal Auditing determined the information technology (IT) audit universe for the Minnesota State Colleges and Universities using a framework developed by the IT Governance Institute called COBIT 4.1. Control Objectives for Information and Related Technology (COBIT) provides a best practice framework that defines information technology activities into four domains and 34 processes. Tools within the framework include control objectives, management guidelines, maturity models and an IT assurance guide for each process. The table below summarizes the auditable units within the COBIT framework.

COBIT Responsibility Domain	COBIT IT Process	Number of Auditable Units as defined by Internal Audit[1]
Plan and Organize	PO1 - Define a strategic Plan	1
	PO2 - Define the Information Architecture	3
	PO3 - Determine Technological Direction	2
	PO5 - Manage the IT Investment	1
	PO7 - Manage IT Human Resources	3
	PO8 - Manage Quality	2
	PO9 - Assess and manage IT Risk	1
	PO10 - Manage Projects	1
Acquire and Implement	AI1 - Identify Automated Solutions	1
	AI2 - Acquire and Maintain Application Software	11
	AI3 - Acquire and maintain technology Infrastructure	4
	AI4 - Enable Operations and Use	2
	AI5 - Procure IT Resources	1
	AI6 - Manage Change	1
	AI7 - Install and Accredit solutions and changes	1
Deliver and Support	DS1 - Define and Manage Service Levels	1
	DS2 - Manage Third-Party Services	6
	DS3 - Manage Performance and Capacity	4
	DS4 - Ensure Continuous Service	6
	DS5 - Ensure System Security	15
	DS7 - Educate and Train Users	2
	DS8 - Manage Service Desk and incidents	4
	DS9 - Manage the Configuration	2
	DS10 - Manage Problems	1
	DS11 – Manage Data	3
	DS12 - Manage the Physical Environment	1
	DS13 - Manage Operations	1
	Applications	35
Monitor and Evaluate	ME1 - Monitor and Evaluate IT Performance	1
	ME3 - Ensure Compliance with External Requirements	1
	ME4 - Provide IT Governance	1
	Total Auditable Units	**119**

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[1] Auditable units do not include any college or university specific applications.

Next Steps:

- Work with Information Technology Division management to measure the maturity level of each COBIT process using the scale 0 - 5. Work with management to determine if maturity levels are appropriate or if targets need to be set. (See Figure 1 for a summary of the COBIT Generic Maturity Model.)
- Determine priorities for conducting audits of specific auditable units. Table 1 provides a guideline for determining when audit coverage is warranted and will be most valuable.
- Determine available audit resources and coordinate IT audits with financial statement external auditors, the Legislative Auditor, Internal Auditing, and other service providers.
- Review and discuss IT audit plan with the institutional Chief Information Officers and the Leadership Council.
- Present the IT audit plan to the Board of Trustees Audit Committee for review, modification (as needed) and approval.

Figure 1 – COBIT Generic Maturity Model

0 **Non-existent**—Complete lack of any recognisable processes. The enterprise has not even recognised that there is an issue to be addressed.

1 **Initial/Ad Hoc**—There is evidence that the enterprise has recognised that the issues exist and need to be addressed. There are, however, no standardised processes; instead, there are *ad hoc* approaches that tend to be applied on an individual or case-by-case basis. The overall approach to management is disorganised.

2 **Repeatable but Intuitive**—Processes have developed to the stage where similar procedures are followed by different people undertaking the same task. There is no formal training or communication of standard procedures, and responsibility is left to the individual. There is a high degree of reliance on the knowledge of individuals and, therefore, errors are likely.

3 **Defined Process**—Procedures have been standardised and documented, and communicated through training. It is mandated that these processes should be followed; however, it is unlikely that deviations will be detected. The procedures themselves are not sophisticated but are the formalisation of existing practices.

4 **Managed and Measurable**—Management monitors and measures compliance with procedures and takes action where processes appear not to be working effectively. Processes are under constant improvement and provide good practice. Automation and tools are used in a limited or fragmented way.

5 **Optimised**—Processes have been refined to a level of good practice, based on the results of continuous improvement and maturity modelling with other enterprises. IT is used in an integrated way to automate the workflow, providing tools to improve quality and effectiveness, making the enterprise quick to adapt.

Source: COBIT version 4.1, COBIT Framework, page 19

Table 1: Guide for Setting IT Audit Priorities

Maturity Level	Operational Criticality	
	Low	**High**
0 - 2	Limited Audit Value, risks are known and accepted by management	Audits assess existence of errors and vulnerabilities; may impact design of control processes
3	Audits should be focused on particular risks that may become apparent through practice.	Highest priorities for assurance services; management needs to know whether process compliance exists.
4 - 5	Continuous auditing principles apply; focus is on effectiveness of IT continuous improvement process.	

Source: Office of Internal Auditing