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MnSCU Office of Internal Auditing
700 World Trade Center, 30 E. 7th Street, Saint Paul, MN 55101 • 612/296-3471
May 20, 1998

The Honorable Nancy Brataas, Chair
MnSCU Audit Committee

Members of the MnSCU Audit Committee

Other Members of the MnSCU Board of Trustees

Chancellor Morris Anderson

MnSCU Presidents

Time has passed quickly since I started with Minnesota State Colleges and Universities on November 3, 1997. We have been working very hard to establish a credible internal auditing function that adds value to the organization. I am pleased to report that we have made progress and begun to build a foundation for the function. Most importantly, I have been fortunate to hire some very talented people to join me. We realize, however, that many challenges lie ahead. This audit plan represents our vision and expectation for meeting those challenges in the next year.

In my six months on the job, I have visited many campuses and had discussions with countless presidents, administrators, and other college officials. I am impressed by their knowledge and dedication; however, I am also cognizant of the tremendous pressure and stress that they face. The higher education merger in Minnesota is almost three years old, but it is not yet stable and much of its potential benefits remain unrealized.

As discussed in our overall risk assessment, MnSCU remains in an extremely vulnerable state. Its information systems and internal control structures are still under construction. It is absolutely essential for the organization to invest sufficiently in those systems and structures. Without them, information will continue to be unreliable, inconsistent, or nonexistent for decision-makers. With them, MnSCU will have a foundation from which it can begin to realize its organizational potential. In fiscal year 1999, Internal Auditing will concentrate on helping the organization build this important foundation.

Sincerely,

John Asmussen, CPA, CIA
Executive Director
MnSCU Office of Internal Auditing
A first step for establishing an internal auditing plan is to conduct a risk assessment. It facilitates a structured process for setting auditing priorities and helps direct auditing resources to the most critical areas. Because MnSCU Internal Auditing was not established until November 1997, there was not sufficient time to conduct a systematic, comprehensive risk assessment prior to completing this audit plan. Therefore, our risk assessment this year represents a more intuitive and subjective process. It is based on our observations and discussions with numerous MnSCU trustees, presidents, and administrators. Furthermore, we think it is quite apparent that, from an audit perspective, the organization’s immediate needs are concentrated in the areas of information systems and fundamental controls. This plan, however, does allocate sufficient resources for completing a formal risk assessment in the next year.

**Primary Risks Observed**

Since the merger, MnSCU has faced tremendous pressure to achieve administrative savings. There was immediate political pressure to eliminate central office administrative positions. Furthermore, there is constant pressure to maximize the use of resources on instructional programs, rather than administrative structure. The organization has been sensitive to those pressures, but unfortunately not yet invested sufficiently in building an appropriate administrative foundation for itself. As a result, significant risks remain in the following four areas:

- **Organizational culture is in a state of flux.** A tremendous amount of stress and uncertainty continues to permeate the organization. The rate of change is blinding -- people are new, systems are new, expectations are high. The organization desperately needs some stability and direction. Efforts are underway to develop thoughtful policies, establish a code of conduct, use strategic planning, and improve training.

- **Information systems have not been developed fully.** The combination of utilizing a client/server computing environment and a prototyping methodology for system development has allowed for a rapid deployment of new systems. The organization, however, sacrificed conventional controls such as documentation, testing, training, and confirming new systems with user management. As a result, a tremendous burden has been shifted to end users and the long-term viability of these systems remains vulnerable. The organization recently reorganized its information technology function and has hired a new Chief Information Officer.
Fundamental internal controls have not been established. The series of Legislative Audit reports confirm that colleges and universities continue to struggle with establishing sound control structures. The problems with information systems and constant changes have made establishing controls difficult for many colleges and universities. Inadequate separation of duties, incomplete reconciliations, poor financial reporting, and inadequate controls over equipment inventories are still common audit findings. Internal Auditing has observed that colleges have implemented corrective actions to resolve the majority of these findings, but many issues remain unresolved.

Information is incomplete, inconsistent, and unreliable. The Board of Trustees has been seeking reliable financial information on MnSCU colleges and universities since shortly after the merger. The MnSCU systems and control structures, however, have not been able to produce satisfactory information. The need for reliable information extends beyond the financial area and concerns all levels of management.

The existence of these risk areas is commonly recognized by MnSCU presidents and administrators. Many efforts are underway to reduce the organizational vulnerability resulting from these risks. As discussed throughout this audit plan, Internal Auditing will continually seek opportunities to promote effective controls at reasonable cost.
For fiscal year 1999, we plan to align our strategies and priorities with the primary risks that we observed in our risk assessment. As shown in the Resource Allocation Overview (page 11), we intend to devote about 75% of our professional staff resources to the completion of technical products and services. The remaining 25% of our time will be divided between planning and development activities (15%) and administrative activities (10%). Audit strategies and priorities focus on the technical products and services component of our resources.

For technical products and services, MnSCU Internal Auditing plans to allocate its resources among the following four areas:

1. **Topics Selected by the Audit Committee (30% of total resources, an estimated 5,000 hours)**

   Internal Auditing intends to recommend new topics to the Audit Committee, as resources become available in fiscal year 1999. Commitments remaining from fiscal year 1998 will occupy internal auditing resources for the first few months of fiscal year 1999. In addition, Internal Auditing is developing a proposal to study MnSCU financial and management reporting practices. If that project is approved, Internal Auditing will not have resources available for new topics until late in calendar year 1998. Prior to recommending additional topics, Internal Auditing would survey trustees and presidents to determine their interests and priorities.

   In fiscal year 1998, the Audit Committee selected two projects to be started in March 1998:

   - Internal Auditing presented an interim report on the Year 2000 Computing Problem at the April 1998 Audit Committee meeting. It plans to produce a final report by July 1998. Although most of the audit fieldwork will have been completed in fiscal year 1998, the project will require a significant follow-up. The Audit Committee has requested quarterly updates on MnSCU’s progress toward achieving Year 2000 compliance. *Estimated resources needed for updates = 500 hours.*

   - Planning is underway to study implementation of the new Student Information System. This study will go beyond a recent consulting engagement performed by CSC Consulting. The internal audit will evaluate data conversion, the quality assurance process, system functionality, system requirements, user readiness, system change controls, and contingency planning. Internal Auditing will review the results of testing at pilot sites and colleges and universities that have implemented the new system in fiscal year 1998. The final report will present
Office of Internal Auditing
Strategies & Priorities

an inventory of existing student systems used by MnSCU institutions. An interim report is planned for July 1998. A final report is scheduled for release in the fall of 1998. [Estimated resources needed for completion in fiscal year 1999 = 1,000 hours.]

In addition, several trustees have expressed immediate interest in an internal audit that examines financial and management reporting practices. The study would review existing financial reporting practices for MnSCU as a whole and each institution. It would examine the reporting functionality available from the accounting system. The pros and cons of acquiring annual audited financial statements would be explored. The project would also examine budgetary reporting and monitoring practices and any other key indicators that are monitored for management reporting purposes. A full proposal will be available in June 1998.

Ultimately, Internal Auditing will want to conduct some audits that demonstrate the versatility of the function. For example, audit topics could focus on operational and programmatic topics outside the traditional financial areas. Those kinds of audit topics present excellent potential for savings and economies. For the time being, however, it will be necessary for Internal Auditing to concentrate on more traditional financial and information technology topics.

2. Control Self-Assessments (20% of total resources, an estimated 3,400 hours)

Control Self-Assessment is an exciting new concept that is emerging in the internal auditing industry. It is a process that partners auditors with management to examine an organization’s internal procedures and business practices. In many respects it is compared to the Total Quality Management (TQM) process. In extreme cases, it can become a reengineering effort. The successful deployment of a control self-assessment methodology will ensure that a thoughtful, cost effective approach is taken to protect MnSCU institutions against risks. A prime indicator of success will be a diminished number of audit findings cited by the Legislative Audit reports, accompanied by lower institution audit costs. A more valuable contribution, however, will be enhanced structures for achieving management objectives.

MnSCU Internal Auditing has studied the Control Self-Assessment concept and is convinced that it has tremendous value for the organization. The University of Texas system (a network of 16 public colleges and universities) has successfully implemented this concept and conducted over 100 facilitated workshops at its campuses. MnSCU Internal Auditing is in the process of completing a pilot project at Winona State University and is working to develop a model that can be adopted for MnSCU.
The MnSCU Control Self-Assessment model will consist of a series of facilitated workshops that focus on a particular function or program. The workshops will gather a cross section of employees responsible for the function or program with MnSCU internal auditors. Participants will gain a consensus on program objectives, conduct a risk assessment, and evaluate controls. The final product will be an action plan to improve the control structure. The workshop will require approximately 8 hours of the participants’ time and 16-120 hours of internal auditing time, depending on the scope.

Control must be defined from a broad perspective for this process to be successful. Internal Auditing standards define control as, “Any action taken by management that enhances the likelihood that established objectives and goals will be achieved.” MnSCU Internal Auditing classifies controls in five objective areas:

- X Reliability and integrity of information,
- X Compliance with applicable laws, policies, and regulations,
- X Safeguarding of assets,
- X Efficiency and economy of operations, and
- X Achieving program goals & objectives.

From a conceptual standpoint, MnSCU Internal Auditing intends to promote the so-called COSO internal control framework. In September 1992, the Committee on Sponsoring Organizations of the Treadway Commission (commonly referred to as COSO) issued a special report Internal control - Integrated Framework. The project represents the most comprehensive effort to establish standard principles and concepts of internal control. It identifies five interrelated components of internal control:

- X Control Environment The core of any organization is its people their individual attributes, including integrity, ethical values, and competence and the environment in which they operate. They are the engine that drives the entity and the foundation on which everything rests.

- X Risk Assessment The organization must be aware of and deal with the risks it faces. It must establish mechanisms to identify, analyze and manage related risks.

- X Control Activities Control policies and procedures must be established and executed to help ensure that the actions identified by management as necessary to address risks to achievement of the entity’s objectives are effectively carried out.
X  *Information and Communication*  Surrounding these activities are information and communication systems. These enable the entity’s people to capture and exchange the information needed to conduct, manage and control its operations.
Monitoring

The entire process must be monitored and modifications made as necessary. In this way, the system can react dynamically, changing as conditions warrant.

In the first quarter of fiscal year 1999, MnSCU Internal Auditing plans to complete the development of its Control Self-Assessment model based on a COSO framework. It then plans to begin offering workshops later in the year.

3. Ad-Hoc Projects (13% of total resources, an estimated 2,200 hours)

Successful internal auditing functions are positioned to address indications of immediate needs. These projects cannot be predicted with any specificity. Examples include projects such as investigations, special requests, and alerting colleges and universities to potential problem areas. Board of Trustees policy 7.2 requires colleges and universities to notify the MnSCU Office of Internal Auditing of suspected illegal acts or misconduct that involves finances. Internal Auditing will assure that any of these cases are thoroughly investigated and resolved.

It should be emphasized, however, that Internal Auditing will not have sufficient staffing to function as the primary investigator for most of these cases. Colleges and universities will be expected to provide the resources for most investigations. Internal Auditing will monitor the cases, provide advise and support as needed, and be responsible for reporting matters to the Legislative Auditor and the Board of Trustees when necessary. The resource demand that investigations place on Internal Auditing will have to be monitored closely.

Other types of ad-hoc projects may be to respond to requests from presidents or the chancellor. Internal Auditing will attempt to be responsive to MnSCU executives while being cognizant of the limited resources it has available. If a president or the chancellor is interested in Internal Auditing conducting a significant audit or study, the topic will be presented to the MnSCU Audit Committee for consideration.

Finally, Internal Auditing plans to develop a mechanism, “Alert Communications”, that can be used to forewarn colleges and universities about potential problems or common concerns.

4. Follow-up on Prior Findings (12% of total resources, an estimated 2,000 hours)

Internal Auditing is committed to an aggressive program for following-up on prior audit findings and encouraging corrective actions for known problems or risks. As of March 31, 1998, 115 prior audit findings remained unresolved. Most of these findings were generated by the Office of the Legislative Auditor based on its financial audits of MnSCU institutions. The Legislative Auditor will be issuing another nine audit reports in the next few months and thirteen more reports in
fiscal year 1999. So audit follow-up is expected to require a significant amount of Internal Auditing resources.

As shown in the later section on external auditors, the Legislative Auditor spends about 18,000 hours each year auditing MnSCU and its institutions. This audit coverage provides a valuable monitoring service for the organization. In the wake of the Legislative Audits, MnSCU institutions need advise and support to help them resolve the audit findings. MnSCU Internal Auditing will work with the institutions to help them find reasonable solutions to their problems. Internal Auditing has a policy on Audit Follow-up that provides a structure for cataloging, classifying, monitoring, and reporting on audit findings. It classifies findings into the following categories, based on the urgency of implementation:

- **Critical** audit finding. Critical audit findings were defined as those matters that required immediate attention and remedy. Without prompt corrective actions these situations present a high risk for questionable financial information or potential losses.

- **Important** audit findings. Important audit findings were defined as matters that may develop into serious problems, but did not show evidence of immediate adverse consequences.

- **Matters for management discretion.** These matters indicate problems with isolated or limited consequences.

Also, the MnSCU Board of Trustees, the chancellor, and the presidents needs assurance that the findings are being addressed. Internal Auditing will deliver quarterly reports to these audiences to report on the progress toward implementing prior findings.
The MnSCU Office of Internal Auditing has designed a staffing model that meets the unique needs of the organization. It balances the need for achieving proximity to MnSCU campuses against the desire to acquire specialty skills in today’s dynamic world. Features of the staffing model, include:

- Establish an audit presence in reasonable proximity to the colleges and universities. Face-to-face communications and an on campus presence is a valuable cornerstone to building an audit function that is trusted and appreciates the daily challenges of college administration. The six regional audit coordinators are the centerpiece to this aspect of the internal auditing function. The regional coordinators will be located on MnSCU campuses. They will be expected to know the key personnel and to establish relationships of trust and understanding. Communications to the colleges and universities will flow through the coordinators.

- Introduce specialty skills into the organization as needed. The current design contemplates that the Deputy Director will provide leadership for information technology. The control self-assessment coordinator will be expected to bring expertise in conducting facilitated workshops and transferring knowledge of controls to colleges and universities.

- Design an organization that is built on cooperative teamwork, rather than a traditional hierarchy. Most positions in the organization will be at the peer level. The Executive Director will clearly delineated responsibilities between geographic regions, specialties, and roles assigned for specific projects. To be successful, audit professionals will have to utilize their peer network, rather than delegating duties to subordinates.

- Make extensive use of technology tools available to optimize the efficiency of the audit function. With regional coordinators located throughout the state, electronic communications will be a critical success factor for the organization. The office must be able to share programs, working papers, and testing results in a real-time, electronic mode. Furthermore, the office is developing the information technology engine capable of supporting its data analysis needs.

- Recruit experienced audit professionals and avoid the development costs associated with hiring inexperienced audit staff. Professional staff will be augmented as necessary by acquiring supplemental resources through contractual services.
To support the program proposed in this audit plan, Internal Auditing has determined that it will require a full-time workforce of eleven employees (ten professional auditors and one administrative support position). The full-time employees will be supplemented by an estimated $125,000 in funds for contractual services, as necessary. This proposed staffing complement represents an increase of four positions from fiscal year 1998. The increased staffing was offset by reducing the budget for contractual services by $275,000. See the section on Internal Audit budget for more details.

Internal Auditing proposes the following positions for fiscal year 1999:

- **1 Executive Director** responsible for overall management of the Office of Internal Auditing. Primary liaison to the Board of Trustees, the Chancellor, and MnSCU Executive Staff.

- **1 Deputy Director** responsible for information technology audits and providing leadership for the using technology as an audit tool. Primary liaison to the Chief Information Officer and information technology specialists.

- **6 Regional Audit Coordinators** responsible for overseeing or conducting all audit related activities on assigned campuses. Each region will contain about six colleges or universities. Locations will include Metropolitan West, Metropolitan East, Central Minnesota, Southeast Minnesota, Western Minnesota, and Northern Minnesota. Regional Audit Coordinators will be located on MnSCU college campuses. [3 positions are new in fiscal year 1999]

- **1 Control Self-Assessment Coordinator** responsible for designing and facilitating control self-assessments. This person will work directly with the Regional Audit Coordinators when conducting facilitated workshops at MnSCU institutions. [New position in fiscal year 1999]

- **1 Principal Auditor** responsible for analyzing systemwide data, compiling project data, supporting the Deputy Director on technology audits, and available for special projects. This position existed in MnSCU prior to the Executive Director being hired.

- **1 Administrative Support** position responsible for coordinating communications, report production, and other administrative and office services duties.

Benchmark data (see later section in this report) for higher education internal auditing functions suggests that MnSCU Internal Auditing should have a staff complement of 16 to 20 professional positions. For fiscal year 1999, however, Internal Auditing believes that 10 professional auditors are a reasonable staffing complement. It is preferable to develop the internal auditing function in controlled increments.
### MnSCU Office of Internal Auditing
### Fiscal Year 1999 Audit Plan
### Resource Allocation-Overview

<table>
<thead>
<tr>
<th>Activities</th>
<th>Estimated Hours</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Technical Products &amp; Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Topics Selected by Audit Committee</td>
<td>5,000</td>
<td>30%</td>
</tr>
<tr>
<td>• Control Self-Assessments</td>
<td>3,400</td>
<td>20%</td>
</tr>
<tr>
<td>• Ad-Hoc Projects</td>
<td>2,200</td>
<td>13%</td>
</tr>
<tr>
<td>• Investigations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Alert Communications</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Special Requests</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Follow-up on Prior Findings</td>
<td>2,000</td>
<td>12%</td>
</tr>
<tr>
<td>• Internal Audits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• OLA Audits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• CPA Audits</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Planning &amp; Development</strong></td>
<td>2,500</td>
<td>15%</td>
</tr>
<tr>
<td>• Conduct Risk Assessments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Promote Internal Auditing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Educate about Controls</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Administration</strong></td>
<td>1,650</td>
<td>10%</td>
</tr>
<tr>
<td>• Hiring</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Training</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Design Audit Tools</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Develop Audit Policies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Staff Meetings</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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**Estimated Hours Available**: 16,750  100%

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**Notes:**

1. Schedule shows estimated hours for following 10 positions (hours for 1 administrative support position is not included in schedule):
   - 1 Executive Director
   - 1 Deputy Director
   - 6 Regional Audit Coordinators
   - 1 Control Self Assessment Coordinator
   - 1 Auditor Principal

2. Some allowance (about 800 hours) is made for positions being vacant for part of the year due to turnover or late hires.

3. If necessary, additional resources, temporary help or specialty expertise, could be acquired through contracting.
For budgetary purposes, Internal Auditing is considered part of the System Office. The System Office contains two common cost pools that are not allocated to specific divisions or functions: (1) office space rental, phones, photocopies, fax machines, and incidental supplies, and (2) computer hardware and software. The Internal Auditing budget, shown within the System Office budget, includes primarily salaries, contractual services, and unique administrative costs for travel, training, and purchased services. In addition, the Internal Auditing budget must pay for the costs associated with maintaining campus-based offices for the regional coordinators, such as office rental, use of campus facilities, and remote equipment needs.

Based on the System Office budget methodology, the Internal Auditing budget as established for fiscal year 1998 and proposed for fiscal year 1999 is as follows:

<table>
<thead>
<tr>
<th>Budgeted Expenditures (1)</th>
<th>FY 1998 (2)</th>
<th>FY 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries (3)</td>
<td>$295,428</td>
<td>$677,300</td>
</tr>
<tr>
<td>Contractual Services</td>
<td>400,000</td>
<td>125,000</td>
</tr>
<tr>
<td>Other Administrative</td>
<td>30,000</td>
<td>83,800</td>
</tr>
<tr>
<td>Expenditures</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Internal Auditing Budget</strong></td>
<td><strong>$725,428</strong></td>
<td><strong>$886,100</strong></td>
</tr>
</tbody>
</table>

(1) Office space costs in St. Paul and computer related costs for the entire System Office are combined in a separate budget.

(2) FY 1998 represents only a partial year of operations for Internal Auditing. The annualized costs (if the function had existed for the entire year) would have resulted in a budget of approximately $900,000 in FY 1998.

(3) In fiscal year 1998, $56,000 was transferred from salaries to the System Office computer budget to cover the costs of acquiring hardware and software for the Office of Internal Auditing.

For fiscal year 1999, MnSCU Internal Auditing proposes converting a substantial amount ($275,000) of its contractual services budget to hiring full-time employees. The overall office budget will remain comparable to fiscal year 1998, but Internal Auditing will be in a better position to provide services and fulfill this audit plan.
External audits are conducted to meet the needs of audiences outside of MnSCU. These audits typically focus on financial or fiscal compliance issues. By contrast, internal audits are intended to satisfy the needs and interests of the MnSCU Board of Trustees and management. Internal auditors will venture into management issues in addition to the financial issues that are the focus of external auditors. MnSCU Internal Auditing is responsible for ensuring that its work is complementary to the external audits and does not duplicate the efforts. The Office of the Legislative Auditor conducts most external audit work for MnSCU. CPA firms audit the Revenue Fund financial statements, foundations, and some private grant awards.

**Office of the Legislative Auditor**

The Legislative Auditor serves as the principal external auditor for state government. It conducts an annual audit Statewide Audit that examines the state’s financial statements and satisfies federal grant auditing requirements. In addition, MnSCU has a contract with the Office of the Legislative Auditor to conduct periodic financial audits of the colleges and universities. The current contract is structured so that each college or university is audited once every three years. The following schedule summarizes the Office of the Legislative Auditor’s actual and estimated hours for fiscal years 1997-1999.

<table>
<thead>
<tr>
<th>Audit Type</th>
<th>FY 1997 Actual</th>
<th>FY 1998 Estimate</th>
<th>FY 1999 Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institution Audits (1)</td>
<td>15,043</td>
<td>14,286</td>
<td>14,425</td>
</tr>
<tr>
<td>Federal Student Financial Aid Audits (2)</td>
<td>3,483</td>
<td>2,442</td>
<td>2,863</td>
</tr>
<tr>
<td>State Financial Statement Audit</td>
<td>1,309</td>
<td>1,264</td>
<td>1,310</td>
</tr>
<tr>
<td><strong>Total OLA Hours</strong></td>
<td>19,835</td>
<td>17,992</td>
<td>18,598</td>
</tr>
</tbody>
</table>

(1) The Legislative Audit contract provides that MnSCU pays about 60% of the cost of auditing each college or university. MnSCU’s share of these costs will range from $400,000 in fiscal year 1997 to $440,000 in fiscal year 1999.

(2) The Department of Finance bills MnSCU for these audit costs through the state indirect cost program.

The Legislative Auditor also has investigative powers. State law requires that MnSCU report to the Legislative Auditor when it discovers any evidence of a substantial violation of the state’s code of ethics. MnSCU Internal Auditing is responsible for coordinating the reporting of this information to the Legislative Auditor.
In fiscal year 1999, MnSCU will be reevaluating its contract with the Legislative Auditor. The control self-assessments coordinated by MnSCU internal auditing are expected to reduce the cost of college and university audits. Those savings could be reinvested in having the Legislative Auditor conduct more frequent audits, such as once every other year, or potentially the auditor could conduct an audit of MnSCU financial statements. The need for audited financial statements must be reviewed thoroughly, however. It presents additional benefits to the organization, but would also involve the added cost of preparing the financial statements. MnSCU Internal Auditing could consider this issue further in its proposed audit project on financial and management reporting.

**Other Audits Conducted by CPA Firms**

MnSCU and some colleges and universities have also contracted with CPA firms for audits. The Revenue Fund financial statements are audited annually, pursuant to a requirement contained in the bond covenants. The audit has cost about $40,000 each year. The Revenue Fund audit contract is currently being bid for the next three years. CPA firms also audit the financial statements of most MnSCU foundations and conduct compliance audits required by some private and state grant programs.
Benchmarks provide a valuable context for reviewing the reasonableness of planning and the adequacy of performance. Each year the Association of College and University Auditors publishes a survey entitled, “Analytical Benchmarking for Auditors in the College and University Sector.” Some of the more interesting statistics contained in the study showed:

- Colleges with over $500 million in operating costs spent an average of 0.03% to have a CPA firm audit their financial statements. [For MnSCU, this would represent an annual cost of over $300,000.]

- College and university auditors reported the following distribution of audit effort:
  - Operational Audits – 28%
  - Financial Auditing – 18%
  - Administrative Activities – 13%
  - Investigative Auditing – 9%
  - Information Systems Auditing – 7%
  - Management Advisory Services – 7%
  - Assistance to External Auditors – 6%
  - Training – 4%
  - Other – 8%

- Measures for average number of auditors, included:
  - $93.4 million of Operating Expenses per auditor [For MnSCU, this would represent about 12 auditors.]
  - 1,099.8 college employees per auditor [For MnSCU, this would represent about 18 auditors.]
  - 5,619.5 students per auditor [For MnSCU, this would represent about 20 auditors.]

- Of audit recommendations made in 1996, 85% were implemented.

- Of time spent on audits completed in 1996, 18% was spent on planning and preparation and the preliminary survey, 61% on fieldwork, 18% on reporting and 3% on other activities.

- The average elapsed time for completing an audit was 103.3 days: 60.3 days to complete fieldwork, 19.8 days from the end of fieldwork to completion of a draft report, and 23.2 days from the draft report to issuance of the final report.
Another common source of benchmarks is to compare your organization to similar organizations. MnSCU Internal Auditing has assembled the following data on the size of other internal auditing organizations:

- The Minnesota Department of Transportation (Mn/DOT) has an internal audit office that employs 20 auditors. Mn/DOT spends about $1.3 billion dollars per year, slightly more than MnSCU. Mn/DOT has 5,000 employees, compared to about 20,000 MnSCU employees. Most of the Mn/DOT internal audit work is conducted in the Minneapolis/St. Paul metropolitan area.

- The University of Minnesota has 18 auditors; one is located in Duluth and the other works out of an office in Minneapolis. The University spends about $1.5 billion per year and has about 30,000 employees (17,000 full-time employees and 13,000 student employees). The University has four campuses, but the internal auditors conduct most of their work in the Minneapolis/St. Paul metropolitan area.

- The University of Texas has 130 auditors. The University has 16 campuses throughout the state and spends about $15 billion per year.

MnSCU Internal Auditing will continue to be alert for good sources of benchmarking information. This information will help ensure that the office is designed to provide state of the art audit services to MnSCU colleges and universities.