

**MnSCU Office of Internal Auditing
Annual Audit Plan & Budget
Fiscal Year 2001**

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June 20, 2000*

MnSCU Office of Internal Auditing Risk Assessment

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. The Office of Internal Auditing conducted a very comprehensive system-wide risk assessment in fiscal year 1999. The process was time consuming, but obtained broad-based input into potential audit topics. Much of the fiscal year 1999 risk assessment results remain valid in the current environment. Therefore, rather than conduct another comprehensive risk assessment in fiscal year 2000, Internal Auditing decided to use the fiscal year 1999 results as a starting point for selecting audit topics for the upcoming year. New developments in fiscal year 2000 and areas of emerging interest were also taken into account in determining audit priorities for fiscal year 2001.

The fiscal year 1999 risk assessment identified 17 potential system-wide audit topics. After extensive discussions with the Audit Committee, System Office administrators, and presidents, the topics were ranked as high, medium, or low potential. Seven topics emerged as high potential audits. Internal Auditing has undertaken two of these seven topics to date. A report on Incumbent Workforce Training Programs will be released in June 2000 and a report on Network Security is expected in the fall of 2000. An updated analysis of the 17 topics is shown in Table 1.

In addition to potential audit topics identified last year, Internal Auditing has identified the following areas as having high potential for new projects:

- The Senior Vice Chancellor for Academic and Student Affairs has asked Internal Auditing to consider a system-wide study of the Post Secondary Enrollment Options (PSEO) program. Possible legislative changes are contemplated for the 2001 Legislative session, so an Internal Auditing study would have to be completed by the end of calendar year 2000.
- In July 1999, the Board of Trustees established a transitional schedule for preparing audited financial statements for the system as a whole (by fiscal year 2001) and then each college and university (by fiscal year 2002). Some of the projects identified in Table 1 would support this effort. Internal Auditing is committed to devoting significant resources to make this effort successful and will work with MnSCU Finance to identify additional opportunities to provide assistance.
- The Chancellor has established an initiative to implement the Malcolm Baldrige quality criteria for the System Office. Internal Auditing is committed to devoting significant resources to this effort and it has employees serving on the Chancellor's task force.

- In January 1999, the Audit Committee approved Internal Auditing conducting a best practices study on employee codes of conduct. A scarcity of comprehensive conduct codes for public higher education systems sidetracked the study. However, Internal Auditing research revealed a host of statutory and bargaining unit provisions that impact employee conduct. This research should be useful in developing a board policy to provide a framework for a code of conduct. Furthermore, 1999 legislation enacted additional requirements for employees to report evidence of potential theft, embezzlement, or misuse of public property. This legislation heightened the need for a MnSCU policy against fraud and other dishonest acts. Internal Auditing has been working with MnSCU general counsel and MnSCU Human Resources to develop a policy and procedures to enact these legislative requirements. In addition, Internal Auditing is prepared to assist with educating college and university employees on their responsibilities pursuant to the legislation.
- Legislative audits have revealed some chronic problems, such as system security and separations of duties. Internal Auditing is interested in developing self-assessment tools that would allow colleges and universities to diagnose their operations for potential weaknesses in areas vulnerable to problems. Also, Internal Auditing is interested in developing a database of commonly asked questions about financial practices and operations.

Internal Auditing recommends the following projects for fiscal year 2001 system-wide assurance services studies:

System-wide Assurance Services Project	Estimated FY 2001 Hours	Estimated Completion Date
1. Network Security Study (approved by the Audit Committee in FY2000)	1,000	Fall 2000
2. Support Financial Reporting Efforts (Work with MnSCU Finance to assess campus readiness in critical areas such as cash, investments, accounts receivable, equipment inventory, leases, and accounts payable. Also, assist colleges and universities in conducting self-assessments of their financial reporting readiness.)	600	Periodic oral reports to Audit Committee throughout FY2001
3. Post Secondary Educational Options Program (Work with MnSCU Academic Affairs to develop project proposal for Audit Committee review in July 2000)	1,400	Winter 2000
4. Auxiliary Enterprise Activities (Work with MnSCU Finance to develop a project proposal for Audit Committee review in early calendar year 2001, depending on availability of audit resources.)	1,700	Spring/Summer 2000

**Table 1: Potential Internal Auditing Topics
Update on Topics Identified in Fiscal Year 1999**

Topic	Potential Impact Rated for FY2000 Audit Topics	Updated Status for FY 2001	Reassessed Impact Rating For FY2001 Audit Topics
Employee Recruitment & Hiring Practices	High Potential	This topic continues to have high potential for Internal Auditing. MnSCU Human Resources has added a position for analyzing HR trends, so improved information is available on system-wide employment statistics. The topic remains quite broad, however, and it may be advisable to focus this study on discrete positions, such as finance positions.	High Potential, but focus topic more.
Auxiliary Enterprises	High Potential	This topic continues to have high potential for Internal Auditing. It should be considered as a project to assist with efforts to prepare audited financial statements.	High Potential, possibly from a financial reporting angle.
Customized Training & Continuing Education	High Potential	Internal Auditing report (now titled "Incumbent Workforce Training Programs" scheduled for June 2000 release.	Completed June 2000.
Network Security	High Potential	Internal Auditing project underway, report scheduled for Fall 2000.	Completed Fall 2000.
Business Continuity Planning + System Backup & Recovery	High Potential	System recovery and backup issues are being examined as part of network security study. MnSCU ITS is studying business continuity planning and Internal Auditing is participating in this work group.	Partially completed Fall 2000, provide consulting services for remaining issues.
Web-based services & electronic business – Best Practices	High Potential	MnSCU is considering the creation of a new corporate university to pursue e-based educational offerings. This development should be monitored, but it is premature to address this topic through an audit. Reassessed as a medium potential project for Internal Auditing.	Medium Potential
Year-end Fund Balances	High Potential	This topic continues to have high potential. It should be considered as a project to assist with efforts to prepare audited financial statements.	High Potential, possibly from a financial reporting angle.
Information Technology Survey	Medium Potential	Some of this information will be gathered during the internal auditing study of network security. Consider pursuing other aspects as future Internal Auditing topics.	Partially completed Fall 2000, consider other aspects as a future topic.

**Table 1: Potential Internal Auditing Topics
Update on Topics Identified in Fiscal Year 1999**

Topic	Potential Impact Rated for FY2000 Audit Topics	Updated Status for FY 2001	Reassessed Impact Rating For FY2001 Audit Topics
Academic Program Review Process	Medium Potential	Remains a medium potential project for Internal Auditing.	Medium Potential
Foundations & Fundraising	Medium Potential	Some key developments were made in this area during fiscal year 2000. The system office hired a new director of development and a new board policy on foundations was implemented. For the time being, it remains a medium potential project, but should be considered for study in a future fiscal year.	Medium Potential
Recruiting & Retaining Students	Medium Potential	A major study was completed in fiscal year 2000 and provided colleges and universities with valuable assistance for enrollment management. Reassessed as a low potential project for Internal Auditing.	Low Potential
Construction Contract Management	Medium Potential	Remains a medium potential project for Internal Auditing.	Medium Potential
Labor Contract Negotiations	Low Potential	Remains a low potential project for Internal Auditing.	Low Potential
Data Analysis tools & Ad-hoc Reporting	Low Potential	Internal Auditing is working with the data warehousing staff and internal work groups to study MnSCU's data analysis needs.	Internal Auditing is providing consulting services.
System Office: Communications & Role	Low Potential	A MnSCU study of the System Office was completed in February 2000 and its recommendations are being addressed. Internal Auditing is participating in a work group that is studying the use of Malcolm Baldrige quality criteria in the system office. An Internal Auditing study of this topic is not recommended.	Internal Auditing is providing consulting services.
Corporate Governance	Low Potential	The Legislative Auditor is conducting a program evaluation of progress toward meeting the goals of the MnSCU merger. Also, the 2000 Legislature required the Department of Administration to study the structure of the MnSCU Board of Trustees. Internal Auditing is assisting the board's Committee on Trustees in establishing quality improvement practices, but an Internal Auditing study of this topic is not recommended.	Internal Auditing is providing consulting services.
Academic Degree Granting Authority	Low Potential	Several new board policies were implemented last year on this topic. An Internal Auditing study of this topic is not recommended.	Low Potential

**MnSCU Office of Internal Auditing
Fiscal Year 2001 Audit Plan
Resource Allocation – Overview**

Activities	Estimated Hours	% of Total
<u>Professional Services</u>		
• Assurance Services	8,000	50%
✓ System-wide Audits		
✓ Request Audits		
✓ Follow-up		
• Inquiry/Investigations Support	1,600	10%
✓ Policy Development & Training		
✓ Assist with Specific Cases		
• Consulting Services	2,800	18%
✓ System Office Baldrige Project		
✓ Committee on Trustees		
✓ Specific Requests		
• Professional Advice	1,000	6%
✓ Database of Common Questions		
✓ Self-Assessment Tools		
✓ Respond to Questions		
<u>Planning & Development</u>	1,000	6%
✓ Conduct Risk Assessments		
✓ Promote Best Practices		
<u>Administration</u>	1,600	10%
✓ Training		
✓ Develop Audit Policies		
✓ Arrange for External Quality Review		
Estimated Hours Available	16,000	100%

Notes:

1. Schedule shows estimated hours for following 10 positions (hours for 1 administrative support position are not included in schedule):
 - 1 Executive Director
 - 1 Deputy Director
 - 6 Regional Audit Coordinators
 - 1 Quality Management Program Coordinator
 - 1 Auditor Principal
2. Hours are shown net of estimated amounts for leaves of absence, sick leave, vacations, holidays, and possible turnover.
3. If necessary, specialty expertise, could be sought in MnSCU or acquired through contracting.

MnSCU Office of Internal Auditing Internal Audit Staffing

Internal Auditing proposes maintaining its current staffing structure for fiscal year 2000. The office has the following positions:

- 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 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 contains about six colleges or universities. Locations include the Minneapolis area, St. Paul area, Central Minnesota, Southeast Minnesota, Northwestern Minnesota, and Northeastern Minnesota. Most regional audit coordinators have offices on MnSCU college or university campuses.
- 1 Organizational Improvement Coordinator responsible for designing and facilitating continuous improvement programs. This position will assist with the implementation of the Malcolm Baldrige quality criteria and other quality initiatives and coordinate the use of techniques such as facilitated workshops and employee questionnaires. This coordinator will collaborate with the regional audit coordinators to provide consultative services directly to the colleges and universities.
- 1 Principal Auditor responsible for analyzing system-wide data, compiling project data, supporting the Deputy Director on technology audits, and available for special projects.
- 1 Administrative Support position responsible for coordinating communications, developing the office website, producing reports, and other administrative and office services duties.

Benchmark data for higher education internal auditing functions suggests that MnSCU Internal Auditing should have a staff complement of 16 to 20 professional positions. Because we have hired experienced staff, located coordinators in regions throughout the state, and made extensive use of technology tools, we believe that 10 professional auditors will serve the organization effectively.

**MuSCU Office of Internal Auditing
Fiscal Year 2000 Proposed Budget**

For budgetary purposes, Internal Auditing is considered part of the system office. The Internal Auditing budget, shown within the system office budget, includes 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. This budget does not, however, include common costs incurred by the system office. Costs for office space, phones, photocopies, supplies, computer hardware, software, and telecommunications are provided for from shared system office cost centers.

Based on the system office budget methodology, the Internal Auditing budget as established for fiscal year 2000 and proposed for fiscal year 2001 is as remains unchanged with a total budget of \$873,400 for each fiscal year.

**MnSCU Office of Internal Auditing
External Audits**

MnSCU acquires external audit services from the Office of the Legislative Auditor (OLA) and Certified Public Accounting firms. The following schedule shows a summary of external audit costs for fiscal year 2000 and estimated for fiscal year 2001.

External Audit Costs
Fiscal Years 2000 and 2001

External Audit Services	Fiscal Year 2000 Actual Costs	Fiscal Year 2001 Estimated Costs
Office of the Legislative Auditor:		
Contract	\$460,000	\$480,000
Federal Financial Aid Audit (1)	\$230,000	tbd
CPA Firms		
Revenue Fund Audit	\$34,100	\$35,100
Foundations (2)	N/A	N/A
Minnesota Job Skills Partnership Act Grants (2)	N/A	N/A
National Collegiate Athletic Association Compliance Audits (2)	N/A	N/A
Totals	\$724,100	tbd

- (1) There is a two-year lag between when these services are provided and when the Department of Finance submits "indirect cost" bills to state agencies. The estimated fiscal year 2000 audit costs are for audits of federal financial aid conducted in fiscal year 1998.
- (2) Costs are not available for these audit services. Foundation audit costs are born by the foundations and not the colleges and universities. Audit costs are an allowable expense from the Minnesota Job Skills Partnership Act (JTPA) grants distributed by the Minnesota Department of Trade & Economic Development to participating colleges and universities.

Legislative Auditor Services

Since fiscal year 1997, MnSCU has contracted for supplemental audit services from the Office of the Legislative Auditor. The audit contract has allowed the Legislative Auditor to conduct comprehensive financial audits of all MnSCU colleges and universities over a three-year period. By the end of fiscal year 1999, the Legislative Auditor had audited each college and university and the system office once since the merger. The Legislative Auditor has also conducted other special audits, such as an audit of system security in August 1997. The following schedule shows a summary of the costs associated with the audit contract.

Office of the Legislative Auditor
 Summary of MnSCU Contract
 Fiscal Years 1997 – 2000

Fiscal Year	Number of Audits	MnSCU Payments	OLA Share Not Billed	Total Contract Value
1997	14	\$400,000	\$306,926	\$706,926
1998	13	\$420,000	\$325,011	\$745,011
1999	13	\$440,000	\$332,805	\$772,805
2000 (1)	14	\$460,000	\$306,600	\$766,601

(1) Value for FY 2000 is estimated.

As the schedule indicates, MnSCU is responsible for paying only a portion of the full value of the contract audit services. The MnSCU share is based on 60% of the estimated contract value, capped at a maximum dollar amount each year. The Legislative Auditor absorbs the remainder of the contract costs from its state appropriation.

State law also requires MnSCU to reimburse the Minnesota Department of Finance for indirect costs associated with audits of its federal financial assistance (commonly known as the Single Audit). There is a two-year lag, however, between when the Legislative Auditor conducts the Single Audit and when the Department of Finance bills MnSCU for the indirect costs. Also, there is a relationship between the MnSCU audit contract and the indirect cost billings. The contract allows the Legislative Auditor to satisfy certain Single Audit requirements, thus reducing indirect cost billings (two years later due to the lag). Indirect cost billings are shown in the following summary:

MnSCU Indirect Cost Billings
 For Audits of Federal Financial Assistance
 Payments made from Fiscal Years 1997- 2000

Year of Service	Year of Payment	Amount
1995	1997	\$281,747
1996	1998	\$320,135
1997	1999	\$259,794
1998	2000	\$249,960

If MnSCU did not contract with the Legislative Auditor for comprehensive audits, then the indirect cost billings would increase. For example, the fiscal year 1999 indirect cost payment would have been approximately \$65,000 higher without the contract.

Finally, the Legislative Auditor conducts other work related to MnSCU that is not billed out under either the contract or through indirect costs. For example, the auditor examines some MnSCU financial activity each year as part of the annual audit of the state's financial statements. The estimated value of the MnSCU share of this audit work in fiscal year 1998 was about \$90,000, which was absorbed by the Legislative Auditor's general fund appropriation. Another example, of Legislative Auditor projects for which MnSCU would not be billed is program evaluations. The Legislative Auditor commenced its first program evaluation of MnSCU in February 2000. It is expected to issued a final report in the summer of 2000.

The contract relationship with the Legislative Auditor has been viewed as highly successful. It has proven to be a very cost efficient solution for MnSCU to obtain external audit coverage. Also, it has helped focus attention on areas that need improvement. MnSCU presidents have indicated that they find the Legislative Audits to be a valuable tool.

In July 1999, the Board of Trustees established a schedule for obtaining audited financial statements for MnSCU system-wide and eventually for each college and university. The schedule calls for an initial audit of the MnSCU system-wide balance sheet for the fiscal year ended June 30, 2000. The Legislative Auditor will conduct this audit during the first six months of fiscal year 2001. Full audited financial statements planned for the year ended June 30, 2001. The Legislative Auditor will conduct that audit during the first six months of fiscal year 2002. Finally, the board has resolved to acquire audited financial statements for each college and university for the fiscal year ended June 30, 2002. The Legislative Auditor does not have the resources to complete all of those audits and Internal Auditing will have to seek the services of CPA firms to conduct most of those audits.

The following schedule shows the potential audit coverage from the Legislative Auditor for fiscal year 2001.

Office of the Legislative Auditor
Contracted Audit Services
Tentative Schedule for Fiscal Year 2001

Explanation	Estimated Audit Hours
<u>Colleges/Universities Last Audited in 1998 (1):</u>	12,400
Anoka Hennepin Technical College	
Anoka Ramsey Community College	
Fond du Lac Community & Tribal College	
Hibbing Community College	
Inver Hills Community College	
Minnesota State College – Southeast Technical	
North Hennepin Community College	
Rainy River Community College	
Ridgewater College	
Riverland Community College	
Rochester Community & Technical College	
St. Cloud Technical College	
<u>Colleges/Universities with new presidents (2):</u>	1,100
St. Cloud State University	
Unassigned Hours (3)	1,000
Total Estimated Hours	14,500

- (1) In fiscal year 1998, these audits required over 14,000 hours to complete. The Legislative Auditor estimates that the audits can be conducted more efficiently now because of the experience that the auditors gained with the first audits.
 - (2) St. Cloud State University is expected to have a new president named soon. Although it was last audited two years ago, another audit would be scheduled to coincide with the new president's appointment.
 - (3) These hours will likely be assigned to the balance sheet audit of MnSCU system-wide financial statements..
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CPA Firm Audits

The Revenue Fund financial statements must have an annual audit, as required by the bond covenants. Beginning with fiscal year 1998, MnSCU entered into a three-year contract with the firm of Larson, Allen, Weishar & Company to conduct this audit. The annual audit costs under the contract are \$36,100, \$34,100, and \$35,100, payable from the Revenue Fund in fiscal years 1999, 2000, and 2001, respectively.

Some colleges and universities also receive grants under the Minnesota Job Skills Partnership Act administered by the state Department of Trade & Economic Development. These grants require a closeout audit to verify compliance with the grant terms. Colleges and universities have contracted with CPA firms to satisfy this grant requirement. The audit costs are an allowable cost under the grant program and generally cost only a few thousand dollars.

Most colleges and universities also are associated with private not-for-profit foundations. Board policy requires that any foundation with annual revenues greater than \$350,000 be audited annually and smaller foundations must receive audits at least once every three years. Foundations are responsible for paying these audit cost from their resources.

Finally, state universities that sponsor Division I or Division II intercollegiate athletic teams are required by the National Collegiate Athletic Association (NCAA) to obtain a compliance audit once every three years. Six state universities are affected by this requirement. The universities arrange for these audits and pay for them from their own resources.