

**BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES
INFORMATION ITEM**

**FIRST
READING**

FY 2002 Audit Plan

BACKGROUND

According to Board Policy 1.D., Part 6, the Office 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. Furthermore, it is essential that the Internal Auditing work plan be aligned with strategic directions charted by management.¹ In large part, the Office of Internal Auditing intends to use the strategic planning efforts conducted by the chancellor and college and university presidents as a foundation for risk assessment and deployment of internal auditing resources. The office recognizes, however, that it also must apply independent judgment in assessing risks so that it may assist the Board of Trustees in fulfilling its fiduciary responsibilities. Finally, the audit plan must be developed in a manner that coordinates internal auditing activities with external auditing activities.

The Office of Internal Auditing has agreed to comply with the budget directives of Chancellor Anderson for fiscal year 2002. Essentially, these directives are intended to maintain system office spending for fiscal year 2002 at the same level as fiscal year 2001. Compliance with the budget directives is complicated for the Office of Internal Auditing because salary costs account for over 90% of its budget. According to system office estimates, the Internal Auditing budget is projected to increase by about \$50,000 in fiscal year 2002 due to the effects of inflation and projected salary increases. To offset these projected increases, the Office of Internal Auditing has committed to investing 1,200 hours of resources each year into supporting the efforts of the CPA firm that will audit the MnSCU financial statements. Internal Auditing estimates that this investment saves MnSCU approximately \$100,000 per year in external auditing costs.

The increased effort to support the audit of MnSCU financial statements is also justified as a priority by Internal Auditing’s judgment of assessed risks. MnSCU is entering the second year of a three-year plan to obtain audited financial statements. The first year effort demonstrated that the organization and its financial systems had matured to the point where the financial statements could be audited. However, the independent auditor’s report cited two material exceptions to generally accepted accounting

¹ For example the Baldrige Performance Excellence Criteria for strategic deployment states, “Without effective alignment, routine work and acts of improvement can be random (pulling the organization and its resources in different directions) and serve to sub optimize organizational performance.”

principles. The organization must strive to remove these exceptions in order for the audited financial statements to provide maximum value to the organization.

The most significant change facing the organization in fiscal year 2002 is the appointment of a new chancellor. Chancellor McCormick is expected to present his work plan to the board of trustees early in his tenure. Internal Auditing is committed to supporting Chancellor McCormick's strategic directions and work plans. As a result, the Internal Auditing work plan is presented in very general terms. These generalities will be transformed into specific work plans after the board has accepted Chancellor McCormick's work plan. An overview of the internal auditing activities proposed for fiscal year 2002 is attached. Further explanation of these internal auditing activities and planned coordination with the external auditors is presented in the following paragraphs.

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 2002:

- Assist external auditors with auditing MnSCU financial statements (discussed previously).
- Conduct a system-wide study of information reported to the Board of Trustees. This study would be conducted in cooperation with the Board Secretary and the Chancellor's Office. It would inventory information that is routinely presented to the board. The relevance, reliability, and usefulness of the information would be assessed. Opportunities would be explored to streamline information reported to the board so that attention is focused on the highest priorities.
- Test board expenses quarterly for legal compliance. Internal Auditing has conducted quarterly audits of board expenses for about two years. These reports were originally requested by the Board Chair and are now provided to the Executive Committee in conjunction with quarterly budget reports presented by the Board Secretary.
- Review the system office's preparations and plans for the transition to the new chancellor. Both members of the Audit Committee and the Chancellor have requested that Internal Auditing develop a program to review transition plans when changes in presidents occur (see separate board report on this project). The Board Chair and Audit Committee Chair have requested that Internal Auditing conduct a similar review of the system office as a result of the change in Chancellors. The review is underway and will be presented to the board at its July meeting.
- Monitor progress toward implementing audit findings. The results of both internal and external audits are presented to the Board of Trustees. It is important that the Board of Trustees receive periodic assurance that any problems revealed by the audits

receive appropriate attention. The Office of Internal Auditing presents quarterly follow-up reports to the board that show progress toward implementing these audit recommendations.

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. It also reports to the board any significant violations of board policy or law, as required by Board Policy 1.D.

SERVICES TO THE CHANCELLOR

As stated earlier, the Office of Internal Auditing is committed to supporting the strategic directions developed by Chancellor McCormick. Chancellor McCormick has requested Internal Auditing to institute a periodic 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 the Chancellor McCormick's work plan, as appropriate. Continuing internal auditing activities that were initiated under Chancellor Anderson include:

- Review plans and preparedness for presidential transitions (See separate board report on this project).
- Support quality and continuous improvement efforts. Internal Auditing personnel have been active members of the System Office Quality Steering Committee that has been exploring ways to implement the Baldrige Quality Criteria in the system office.
- Assist with implementation of control models. The MnSCU Finance Division intends to implement the internal control framework developed by the Committee on Sponsoring Organizations (COSO) and the MnSCU Information Technology Services Division intends to implement Control Objectives for Information and Related Technology (COBIT). Internal Auditing personnel have extensive knowledge of both control models.
- Assist with the development and implementation of the Board Policy Against Fraudulent and Other Dishonest Acts. Internal Auditing has been working with the MnSCU General Counsel and Vice Chancellor of Human Resources on this project. Continued efforts in this area may depend on the priorities established in Chancellor McCormick's work plan.
- Support the Chancellor as necessary with fraud investigations and inquiries.
- Assist with efforts to implement system-wide studies conducted by Internal Auditing. Past studies that have unresolved issues include the Student Information System, Reliability of Financial Data, Incumbent Workforce Training Programs, and Network Security. The soon-to-be-released study of the Post-secondary Enrollment Options Program is also expected to have a positive impact on the organization.

SERVICES TO PRESIDENTS

As provided by Board Policy 1.D., 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. The only matters communicated directly to the Board of Trustees are any significant violations of board policy or legal requirements. Requests from presidents for internal auditing services have increased steadily since the office was created in 1997. Assurance service projects have included topics such as budget and spending practices, financial operations of a radio station, a grant closeout audit, and a study of workers' compensation costs. A new assurance service that Internal Auditing is developing for fiscal year 2002 is monitoring system security clearances. This area has proven to be a constant problem cited by the Office of the Legislative Auditor. The MnSCU Information Technology Services (ITS) and Finance Divisions have struggled to develop a systemic solution and awareness program to prevent ongoing problems in this critical area. As a result, Internal Auditing will develop a monitoring program to detect problems with security clearances and report them to colleges and universities for resolution.

In addition, the office has created an array of consulting services that are offered to colleges and universities. The following types of consulting services have been provided in the past year and will continue to be offered in fiscal year 2002:

- 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. In addition to one-on-one advice, Internal Auditing will explore opportunities to develop other information resources such as Frequently Asked Questions, Self-assessment tools, and training programs on areas such as fraud and internal controls.

COORDINATION WITH EXTERNAL AUDITORS

The Office of the Legislative Auditor (OLA) has been the primary source of external auditing services for MnSCU since its inception. For five years, MnSCU has had a contract with the OLA to conduct financial audits of each MnSCU college and university over a three year schedule. The Vice Chancellor – Chief Finance Officer and Executive

Director of Internal Auditing have had preliminary discussions with the Deputy Legislative Auditor about continuing this contract in fiscal year 2002. Additional work is needed to gain agreement on the scope of the audits. It is anticipated that a new contract will be presented to the Audit Committee for its review and approval at the July 2001 meeting.

At its May 31, 2001 meeting, the Board of Trustees ratified an earlier decision by the Executive Committee to hire the Certified Public Accounting firm of Deloitte & Touche, LLP to serve as the principal auditor for MnSCU financial statements and federal grant funds. Deloitte & Touche, LLP will audit the comprehensive MnSCU financial statements, Revenue Fund financial statements, and federal financial assistance programs for the fiscal years 2002 - 2004. Internal Auditing will work closely with Deloitte & Touche, LLP and provide significant technical assistance for this important project.

NEXT STEPS

This audit plan is being presented to the Audit Committee as a First Reading in June 2001. Feedback and comments will be obtained from interested parties and final approval sought at the July 2001 board meeting.

Primary Client	Assurance Services (50%)	Consulting Services (25%)	Fraud Inquiry & Investigation Support (5%)	Professional Advice (20%)
Board of Trustees	<ul style="list-style-type: none"> • MnSCU audited financial statements • Study information reported to board • Quarterly audits of board expenses • Chancellor transition review • Monitoring follow-up of prior audits 	<ul style="list-style-type: none"> • Assist subcommittee on trustees, as needed 	<ul style="list-style-type: none"> • Complete Fraud Policy • Report significant violations 	<ul style="list-style-type: none"> • As requested
Chancellor	<ul style="list-style-type: none"> • Presidential transition reviews • Projects tied to new chancellor's work plan, as requested 	<ul style="list-style-type: none"> • Quality Models <ul style="list-style-type: none"> ✓ Baldrige ✓ AQIP/MnQIP • Control Models <ul style="list-style-type: none"> ✓ COSO ✓ COBIT 	<ul style="list-style-type: none"> • Complete Fraud Procedures & Guidelines • Inquiry & investigative support, as needed • Monitor open cases 	<ul style="list-style-type: none"> • System-wide presentations, e.g., PSEO, Fraud, etc. • Follow-up advice on system-wide studies • As requested
Presidents	<ul style="list-style-type: none"> • Projects tied to presidents' strategic plans & risk assessments, as requested • Periodic monitoring reports of security clearances 	<ul style="list-style-type: none"> • Facilitation services • Self-assessment workshops • Process mapping • Organization and process redesign • Climate surveys • Assist in resolving complex audit findings 	<ul style="list-style-type: none"> • Inquiry & investigative support, as needed • Monitor open cases 	<ul style="list-style-type: none"> • Self-assessment tools • FAQs • Assist with resolving & preventing audit findings • Training workshops, <ul style="list-style-type: none"> ✓ Fraud Awareness ✓ Quality & Control Models

Date presented to Board of Trustees: June 20, 2001