

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

**Agenda Item Summary Sheet**

**Committee:** Audit Committee

**Date of Meeting:** June 17, 2003

**Agenda Item:** FY 2004 Audit Plan

Proposed  
Policy Change

Approvals  
Required by  
Policy

Other  
Approvals

Monitoring

Information

**Cite policy requirement, or explain why item is on the Board agenda:**

Board Policy 1D.1, part 6, requires the Executive Director of Internal Auditing to present an audit plan for each fiscal year.

**Scheduled Presenter(s):**

John Asmussen, Executive Director, Office of Internal Auditing

**Outline of Key Points/Policy Issues:**

- External and internal audit services reduced by 10% for fiscal year 2004.
- Continue to expand financial statement audits of individual institutions, now includes audits of 12 individual colleges and universities.
- Continue to support internal audit needs of board and Chancellor, fewer services available to colleges and universities due to budget constraints.

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

<b>BOARD ACTION</b>
FY 2004 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. Portions of the audit plan were distributed to college and university presidents and other interested parties for their review. The fiscal year 2004 audit plan is attached.

**RECOMMENDED COMMITTEE ACTION:**

The Audit Committee recommends that the Board of Trustees adopt the following motion: The Board of Trustees approves the MnSCU Office of Internal Auditing annual audit plan for fiscal year 2004.

**RECOMMENDED BOARD ACTION:**

The Board of Trustees approves the MnSCU Office of Internal Auditing annual audit plan for fiscal year 2004.

*Date Presented to the Board of Trustees: June 18, 2003*

*Date of Board Action: June 18, 2003*

*Date of Approval: June 18, 2003*

**MnSCU Office of Internal Auditing**  
**Annual Audit Plan**  
**Fiscal Year 2004**

According to Board Policy 1.D., 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. Risk assessments can take many different forms and include various levels of employee involvement. For building the fiscal year 2004 audit plan, the Office of Internal Auditing completed a risk assessment of MnSCU by interviewing presidents and drawing on its own experiences. The preliminary risk assessment was presented to the Audit Committee in April 2003 and has been used in this plan to identify potential audit topics for fiscal year 2004.

The Office of Internal Auditing has agreed to comply with the budget directives of Chancellor McCormick for fiscal year 2004. As a result, the budget for internal and external audit services has been reduced by 10% for fiscal year 2003. Internal Auditing resources devoted to supporting external auditors have been increased as more external CPA audits have been added. By fiscal year 2005, Internal Auditing will devote about 3,000 of its 16,000 available hours to supporting external auditors. This commitment results in significant cost savings for external audit services (an estimated \$250,000 to \$300,000 annually). It also reduces, however, the amount of time available to provide assurance and consulting services requested by presidents.

An overview of the internal auditing activities proposed for fiscal year 2004 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 2004:

- Assist external auditors with auditing MnSCU financial statements (discussed previously).
- During fiscal year 2003, the Office of Internal Auditing facilitated efforts to develop a system-level accountability framework. Implementation of the proposed framework is expected to occur throughout fiscal year 2004. Internal Auditing will continue its support of the Board of Trustees on governance initiatives, such as indicators and monitoring during fiscal year 2004.

- Test board expenses quarterly for legal compliance. Internal Auditing has conducted quarterly audits of board expenses for about four years. These reports were originally requested by a previous Board Chair and are now provided to the Executive Committee in conjunction with quarterly budget reports.
- 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 provides exception reports to the board as issues arise or lack of progress is made on implementing these audit recommendations.
- Develop a system-level ongoing risk assessment methodology to identify and examine high risk transactions on a regular basis. This effort will help support the exception based reporting aspect of the system-level accountability framework.
- Potentially conduct a system-wide topic of high interest to the board. This effort will depend on resource availability after completion of the audited financial statements in December 2003.

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**

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 monthly 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.

Continuing internal auditing activities to assist the Chancellor include:

- Conduct 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.
- Support quality and continuous improvement efforts. Internal Auditing personnel have been active members of the System Office Quality Steering Committee that is working toward implementing quality initiatives within the Office of the Chancellor. One initiative is the Minnesota Quality Improvement Project (MnQIP), which was organized to support collaboration among colleges and universities interested in continuous quality improvement.

- Explore opportunities for shared service arrangements.
- Assist with implementation of control models, including the internal control framework developed for financial reporting by the Committee on Sponsoring Organizations (COSO) and Control Objectives for Information and Related Technology (COBIT). Internal Auditing personnel have extensive knowledge of both control models.
- Continue with implementation of the Board Policy Against Fraudulent and Other Dishonest Acts. Internal Auditing has met with the presidential executive teams for all colleges and universities and has assisted with some presentations to faculty and staff to build awareness of the policy.
- Support the Chancellor as necessary with fraud investigations and inquiries.
- Continue to support the efforts of the Information Technology Division on the implementation of a security framework. Although significant progress has been made in developing a security infrastructure, much work remains.
- 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, Network Security and Post-secondary Enrollment Options Program.

## **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. Only significant violations of board policy or legal requirements, discovered during the project, would have to be communicated directly to the Board of Trustees. 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, grant compliance, and cost studies.

In addition, the office has created an array of consulting services that are offered to colleges and universities. Consulting to be offered in fiscal year 2004; include

- Facilitation services,
- Self-assessment workshops,
- Process mapping, flowcharting, and polarity maps,

- Organizational and process redesign services,
- Climate surveys,
- Assistance with designing solutions to complex audit findings, and
- Develop internal MnSCU benchmarks using Activity-Based Costing techniques. This service will help presidents analyze how they invest resources internally.

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

Unfortunately, budget constraints will require Internal Auditing to be more 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 MnSCU since its inception. For six years, MnSCU has had a contract with the OLA to conduct financial audits of each MnSCU college and university over a three year schedule. With the hiring of CPA firms to conduct financial statement audits, the role of the OLA is changing. The Executive Director of Internal Auditing and the Vice Chancellor of Finance – Chief Financial Officer have had preliminary discussions with the OLA. A final plan for OLA services will be presented to the Board of Trustees at a later date.

The Certified Public Accounting firm of Deloitte & Touche, LLP continues to serve as the principal auditor for MnSCU financial statements and federal grant funds.<sup>1</sup> Deloitte & Touche, LLP will audit the comprehensive MnSCU financial statements, Revenue Fund financial statements, and federal financial assistance programs for the fiscal years 2001 – 2003. Internal Auditing works closely with Deloitte & Touche, LLP and provide significant technical assistance for this important project.

In addition, it should be noted that the Deloitte & Touche contract will phase out most of MnSCU's obligation to pay state indirect costs. According to state law, the Minnesota Department of Finance has charged MnSCU for the costs incurred by the Legislative Auditor to audit federal funds. These "indirect" costs are calculated on a four-year average. At its high point in fiscal year 1998, MnSCU paid \$320,000 for these audit services. By fiscal year 2005, these costs should be nearly eliminated.

To augment the system-wide audit, the board has developed a plan to obtain financial statement audits of individual colleges and universities. Internal Auditing also works

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<sup>1</sup> In May 2001, the Board of Trustees ratified the decision 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.

closely with these firms and provides technical assistance for these audits. The institutional audit plan has been phased in since 2002, as follows:

- At its April 2002 meeting, the Board of Trustees hired the Certified Public Accounting firm of Larson, Allen, Weishair & Co. to conduct independent financial statement audits of St. Cloud State University, Minnesota State University, Mankato and Winona State University for fiscal years 2002-2004. In addition, the Board hired the Certified Public Accounting firm of LLP Kern, DeWenter, Viere, Ltd. to conduct audits at Minnesota State University Moorhead, Bemidji State University, and Northwest Technical College for fiscal years 2002-2004.
- At its April 2003 meeting, the Board of Trustees hired the Certified Public Accounting firm of Larson, Allen, Weishair & Co. to conduct an independent financial statement audit of Century College for fiscal years 2003-2005. In addition, the Board hired the Certified Public Accounting firm of Kern, DeWenter, Viere, Ltd. to conduct audits at Rochester Community & Technical College and Southwest State University for fiscal years 2003- 2005. Finally, the Board hired the Certified Public Accounting firm of Virchow, Krause, & Company to conduct audits of Hennepin Technical College, Minneapolis Community & Technical College, and Metropolitan State University for fiscal years 2003-2005.
- During fiscal year 2004, the current external audit plan calls for hiring Certified Public Accounting firms to audit an additional 6-8 institutions during fiscal years 2004-2006. The Audit Committee will revisit this plan at its December 2003 meeting.

Upon completion of the fiscal year 2004 phase of the institutional audit plan, over 70% of system financial activity will be subject to annual audit coverage. Audit coverage of the remaining 30% of the financial activity will be achieved through a combination of contracting with the Legislative Auditor and using internal auditing resources. The final plan for institutional audits will be presented to the Audit Committee in December 2003.

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	1,400								
	Expense Reviews	200								
	Audit Readiness	300								
	System-wide study	3,000								
Chancellor and Presidents (43%)	Transition Reviews	200	Request Work - Campus	900	Inquiries and Investigations	1,200	Contacts and Questions	1,200	Project Development	200
	Request Work - campus	800	Request Work - Chancellor	900						
	Request Work - Chancellor	800								
General (9%)							Roundtables and Task Forces	400	Relationship Building	600
									On-going Risk Assessment	300
<b>Totals</b>		<b>8,800</b>		<b>1,800</b>		<b>1,200</b>		<b>1,600</b>		<b>1,100</b>
		61%		12%		8%		11%		8%

Major Projects Planned for fiscal year 2004

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. Explore opportunities for developing internal MnSCU benchmarks and shared services, using Activity-Based Costing techniques.
5. Continue to work with ITS on implementation of a security framework.
6. Develop on-going risk assessment tools for high risk transactions

Other projects to be developed during fiscal year 2004

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