

**Minnesota State Colleges and Universities**  
**Office of Internal Auditing**  
**Annual Audit Plan**  
**Fiscal Year 2005**

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 the fiscal year 2005 audit plan, the Office of Internal Auditing interviewed members of the Chancellor’s Cabinet and compiled a list of potential project for fiscal year 2005. The list of potential projects was presented to the Leadership Council and the Board of Trustees in April 2004 to allow for additional input into this audit plan.

The Office of Internal Auditing has agreed to comply with the budget directives of Chancellor McCormick for fiscal year 2005. As a result, this audit plan is built on the premise that Internal Auditing will have the same resources as in fiscal year 2004.

An overview of the internal auditing activities proposed for fiscal year 2005 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.

**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 2005:

- **Support External Auditors** – Internal Auditing has ongoing responsibilities for supporting the external auditors that examine the system-level and 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.
- **Study Financial Reporting and Auditing Practices of Other Higher Education Systems** – This project will be conducted jointly with the Office of the Chancellor Financial Reporting Unit. The project will gather information from other higher education systems and formulate a recommendation on whether the plan for auditing institutional financial statements should be expanded (currently the audited financial statements are obtained for 12 of the 32 institutions).
- **Facilitate System-Level Accountability Framework** - During fiscal year 2003 and 2004, the Office of Internal Auditing facilitated efforts to develop a system-level accountability framework. Internal Auditing has also led efforts to redesign a web

site suited for the unique needs of the Board of Trustees. Implementation of the proposed framework and web site is expected to continue throughout fiscal year 2005.

- **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 previous 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 receive periodic assurance that any problems revealed by the audits receive appropriate attention. The Office of Internal Auditing reports progress toward implementing audit findings to the presidents and the Chancellor. It is prepared to provide exception reports to the board if adequate progress is not made to resolve prior audit findings.
- **Conduct studies that have significant system-wide interest** - The study topic(s) are often identified by the Chancellor, but often are of significant interest to the Board of Trustees. System-wide topics studied by Internal Auditing in fiscal year 2004 included compliance with federal financial aid academic progress monitoring requirements and services provided to traditionally underrepresented student populations.

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 is assisting with planning for the Board of Trustees retreat planned for November 2004. Internal Auditing 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 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 Hibbing Community College, Alexandria Technical College, and Normandale Community College in fiscal year 2004.

- **Assist the Office of the Chancellor Continuous Improvement Initiative** – This project would support the Associate Vice Chancellor for Continuous Improvement in establishing a continuous improvement process for the Office of the Chancellor. Internal Auditing personnel also have been active members of the System Office Quality Steering Committee that is working toward implementing quality initiatives within the Office of the Chancellor.
- **Study Construction Program Administration** – This project will focus on construction projects administered throughout the system. Objectives will include analyzing institutional practices for carrying out design and construction management duties delegated by the Chancellor and testing compliance with board policies, chancellor procedures, and applicable legal provisions. [*Content expertise will be provided by the Office of the Chancellor Facilities Unit.*]
- **Assist with Implementation of Control Models** - Internal controls are an important component of the federal Sarbanes-Oxley Act that enacted corporate governance provisions for publicly-traded companies. Although, the Act does not apply to the Minnesota State Colleges and Universities System, the system is considering whether to implement some of its provisions voluntarily. Internal Auditing has extensive expertise in two control models: the internal control framework developed for financial reporting by the Committee on Sponsoring Organizations (COSO) and Control Objectives for Information and Related Technology (COBIT).
- **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. Internal Auditing also supports the Chancellor as necessary with fraud investigations and inquiries.
- **Support Ongoing Monitoring Activities** – Since its inception, Internal Auditing has monitored the status of unresolved audit findings. Initially, this process included audit findings cited by the Office of the Legislative Auditor. It has now been expanded to include findings issued by external auditors and other matters requiring remediation, such as the issues regarding satisfactory academic progress of financial aid recipients. In fiscal year 2005, monitoring activities may be expanded to include periodic testing of matters that interest the Vice Chancellors. Monitoring results are reported to the presidents throughout the fiscal 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.
- **Assist with Implementing Recommendations from System-wide Studies** - For example, some issues identified in the fiscal year 2004 Internal Auditing study of practices for monitoring the academic progress of financial aid recipients need further corrective actions.

## **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 2005; include

- 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. For seven years, 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 system-wide information technology services and the smaller colleges and universities that do not have annual CPA audits.

In April 2004, 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 2004 – 2006.

Internal Auditing will work closely with KDV and provide significant technical assistance for this important project.

In addition, it should be noted that the KDV contract will phase out most of the System's obligation to pay state indirect costs. According to state law, the Minnesota Department of Finance has charged the System 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, the System paid \$320,000 for these audit services. In fiscal year 2005, these costs are expected to be less than \$20,000.

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 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.

In December 2003, the Board of Trustees directed the Executive Director of Internal Auditing and the Vice Chancellor – Chief Finance Officer to study potential for expanding the annual financial statement audits to additional colleges and universities. The study results are due to the board in December 2004.

Primary Client	Professional Services									
	Assurance	Hours	Consulting	Hours	Fraud	Hours	Professional Advice	Hours	Planning and Development	Hours
<b>Board of Trustees (48%)</b>	Audited Financial Statements	2,400								
	Follow-up and other Audit Services	1,700								
	Expense Reviews	200								
	System-wide studies	3,000								
<b>Chancellor and Presidents (43%)</b>	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								
<b>General (9%)</b>							Roundtables and Task Forces	400	Relationship Building	200
									On-going Risk Assessment	300
<b>Totals</b>		<b>9,200</b>		<b>1,800</b>		<b>1,200</b>		<b>1,600</b>		<b>700</b>
		64%		12%		8%		11%		5%

Major Projects Planned for fiscal year 2005

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

Other projects to be developed during fiscal year 2005

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