

**Minnesota State Colleges and Universities**  
**Office of Internal Auditing**  
**Annual Audit Plan**  
**Fiscal Year 2007**

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.

The Office of Internal Auditing has agreed to comply with the budget directives of Chancellor McCormick for fiscal year 2007. As a result, this audit plan is built on the premise that Internal Auditing will have the same level of resources as in fiscal year 2006 with a modest adjustment for inflation.

An overview of the internal auditing activities proposed for fiscal year 2007 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.

**RISK ASSESSMENT**

For internal auditing purposes, a risk assessment is intended to support the selection of the highest priority projects using audit resources, specifically assurance services. It begins with identification of an audit universe which represents the population of potential audit areas. The MnSCU Office of Internal Auditing identifies a multi-faceted audit universe that includes the following components:

- **Significant financial control activities** - The financial statements provide the basis for determining the significance or materiality of financial activities. Because the effectiveness of internal controls is subject to change and possible deterioration, it is essential that basic assessments of these controls be scheduled on a recurring basis. The most significant financial activities (system-wide financial statements and federal financial aid, and 12 largest colleges and universities) are scheduled for audit review by external auditors on an annual basis. Internal auditing supports those annual audits. The significant financial activities of the other 19 colleges and universities and the Office of the Chancellor are scheduled for an audit review once every three years by the Office of the Legislative Auditor. That three-year cycle is subject to change if circumstances warrant a more accelerated schedule at a particular institution.
- **Board policy compliance** – During fiscal year 2006, the Office of Internal Auditing developed a methodology for assessing risk associated with achieving compliance with board policies. The methodology was based on categorizing policies along two dimensions, strategic significance (more steering than regulatory) and locus of control. The methodology categorized 12 board policies as having the highest potential for an internal audit:

- Budget Allocation formula (approved by the Board of Trustees, but not codified as a policy)
- 3.2 Program Inventory
- 3.4 Admissions
- 3.21 Undergraduate Credit Transfer
- 5.13 Information Technology Administration
- 3.26 Intellectual Property
- 3.3 Student Assessment
- 3.5 Post-secondary Enrollment Options
- 5.22 Acceptable Use of Computers and Information Technology
- 4.9 Employee Evaluation
- 5.10 Reserves
- 2.6 Intercollegiate Athletics

Internal Auditing will have the resources to examine compliance with one of these policies during fiscal year 2007. A final decision need not be made until September 2006. At this point, the project with the most expressed interest is related to Policy 3.21 Undergraduate Credit Transfer and concerns implementation of two system-wide systems, Degree Audit Record System (DARS) and Course Applicability System (CAS). Achieving a seamless course registration environment for students is premised on the successful implementation of these two systems.

- **Reliability of Accountability Measures** – As the organization moves closer to identifying its priority accountability measures, the criticality of having reliable data underlying those measures is heightened. Reliability is concerned with the consistency, stability and precision of data. Because the final accountability measures for fiscal year 2006 have not yet been identified, Internal Auditing will reassess whether to add a project related to the reliability of key accountability data before the September board meeting.
- **Management Priorities** – The Office of Internal Auditing serves the board, Chancellor, and presidents. Unique risks and attendant audit priorities may be identified from any of those perspectives. Accordingly, this plan allows for the Chancellor and presidents to request assurance or consulting services that address particular risks that they wish to be examined. To the extent that Internal Auditing has available resources after serving the interests of the Board of Trustees, it will undertake projects requested by the Chancellor and presidents.
- **Emergent Issues** – No audit universe is able to anticipate all potential issues that may require more in-depth study. Accordingly, internal auditing is constantly scanning the environment to be alert for risks that may require audit resources. An example of emergent risks that require internal auditing services periodically are investigations. Other unforeseen programmatic or compliance matters also may emerge as meriting audit resources. As a result, much of this audit plan has

been designed with the flexibility to allow for a reassignment of resources when more pressing issues arise.

## **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 2007:

- **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.
- **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 former 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 have confidence that any problems revealed by the audits receive appropriate attention. Internal Auditing monitors progress toward implementing audits of financial statements and foundations conducted by CPA firms, financial and information technology controls audited by the Legislative Auditor, projects completed by the Office of Internal Auditing, state financial aid audits conducted by the Minnesota Office of Higher Education, and program reviews of financial aid conducted by the U.S. Department of Education. 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.
- **Reinforce Implementation of the Board Policy 1C.2, Fraudulent or Other Dishonest Acts** – Since the board approved Policy 1.C.2 in June 2002, Internal Auditing has worked with the Chancellor’s Cabinet and presidential executive teams to implement its provisions. During fiscal year 2006, Internal Auditing conducted a study of the effectiveness of current mechanisms for making employees aware of their reporting obligations under the policy. That report is being presented to the Audit Committee in June 2006 and may result in the need for Internal Auditing to conduct additional activities to improve implementation of the policy.
- **Conduct studies that have significant system-wide interest** – Each year, Internal Auditing schedules a study of a topic of major system-wide interest. The risk assessment identifies some high potential projects that Internal Auditing could study

in fiscal year 2006. A study topic will be recommended to the Audit Committee in September 2006..

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 has assisted with planning some of past the Board of Trustees retreats. 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 Central Lakes College and St. Cloud Technical College in fiscal year 2006.
- **Conduct fraud investigations, as requested** – Pursuant to Board Policy 1.C.2, Internal Auditing services are available upon request of the Chancellor to conduct fraud investigations. These services are provided on an ad-hoc basis when and if fraud inquiries warrant investigations.
- **Assist Cabinet members with high risk areas** – Internal Auditing assists Vice Chancellors and other Cabinet members with addressing concerns about a variety of high risk areas. For example, at the request of the Vice Chancellor for Information Technology, Internal Auditing is represented on system-level councils concerned with IT security. The Executive Director of Internal Auditing actively supports the efforts of the Executive Director of Diversity and Multiculturalism. Internal Auditing supports efforts to improve system-wide financial aid procedures in areas such as Satisfactory Academic Progress and Return-to-Title IV. In fiscal year 2006, at the request of the Vice Chancellor for Human Resources, Internal Auditing tested supplemental compensation paid to state university faculty members.
- **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. 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.

## **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. Past consulting projects have offered the following services:

- 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. Since shortly after the 1995 merger, 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 works closely with KDV and provides significant technical assistance for this important project.

In addition, it should be noted that the principal auditor contracts have phased out most of the obligation to pay state indirect costs. According to state law, the Minnesota Department of Finance charges 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, the System paid \$320,000 for these audit services. In fiscal year 2007, 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 external audit plan has undergone periodic changes in recent years. The most recent plan, approved by the Board of Trustees in January 2005, requires stand-alone annual financial statement audits of 12 of the largest institutions in the system. Internal Auditing works with the MnSCU Financial Reporting Unit to make arrangements for these audits and support the work of these external auditors.

| Primary Client                  | Professional Services              |              |                           |              |                              |              |                             |              |                          |            |
|---------------------------------|------------------------------------|--------------|---------------------------|--------------|------------------------------|--------------|-----------------------------|--------------|--------------------------|------------|
|                                 | Assurance                          | Hours        | Consulting                | Hours        | Fraud                        | Hours        | Professional Advice         | Hours        | Planning and Development | Hours      |
| Board of Trustees<br>(48%)      | Audited Financial Statements       | 2,400        |                           |              |                              |              |                             |              |                          |            |
|                                 | Follow-up and other Audit Services | 1,700        |                           |              |                              |              |                             |              |                          |            |
|                                 | Expense Reviews                    | 200          |                           |              |                              |              |                             |              |                          |            |
|                                 | System-wide studies                | 3,000        |                           |              |                              |              |                             |              |                          |            |
| Chancellor and Presidents (43%) | 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          |                           |              |                              |              |                             |              |                          |            |
| General (9%)                    |                                    |              |                           |              |                              |              | 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 2007

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 significant area (topic to be selected in September 2006).
5. Support functional responsibilities subject to the oversight of the Vice Chancellors.

Other projects to be developed during fiscal year 2007

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