

Minnesota State Colleges and Universities
Office of Internal Auditing
Fiscal Year 2013 Annual Audit Plan

This document outlines the Office of Internal Auditing annual audit plan for fiscal year 2013. It includes all internal and external audit activities planned for the ensuing fiscal year, as required by Board Policy 1D.1, Part 6. This document contains four sections and one appendix:

Section I – Audit risk assessment results

Section II - Internal Auditing technical resources

Section III - Other monitoring activities.

Section IV – Administrative activities.

Section I: Audit Risk Assessment Results

Professional internal auditing standards require the chief audit executive (CAE) establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organizations goals. Guidance on this standard states that the CAE should prepare the audit plan based on the audit universe, input from senior management and the board, and an assessment of risk and exposures affecting the organization.

When a formal enterprise risk management program exists, internal audit is able to leverage the results to limit additional risk assessment. However, a mature process does not exist within the Minnesota State College and University system. As a result, we conducted an audit risk assessment. This approach took into consideration enterprise risks, financial risks, and information technology risks. We discussed the preliminary results with the Audit Committee at their May 15, 2012 meeting.

Enterprise Risks

Chancellor Rosenstone has completed significant work in the past year on strategic risks facing the system. The Chancellor has commented that the strategic framework, approved by the Board of Trustees in January 2012, is a powerful response to the most critical needs facing Minnesota, and that it sets out ways in which the colleges and universities can meet Minnesota's most critical needs. It was a product of eight months of intensive listening to students, faculty, staff, and community and business leaders across the state and was developed in collaboration with the presidents and cabinet members.

The three commitments of the framework are: to ensure access to an extraordinary education for all Minnesotans; be the partner of choice to meet Minnesota's workforce and community needs; and deliver to students, employers, communities and taxpayers the highest value/most affordable higher education option.

In April 2012, the presidents and cabinet conducted a brainstorming exercise on risks the system is facing. They came up with more than 60 topics and four common themes emerged:

- **Fiscal concerns** – this has been a recurring theme over the past several years, with the difficult economic times the State of Minnesota and the nation are facing and the resulting decline in state support of higher education.
- **Change resistance and preparation for change** – the projects within the strategic framework, including the growth of the Campus Services Cooperative (COOP), will bring much change to the system, colleges and universities, and individual employee responsibilities. While necessary, it will be important to manage projects and changes to employee positions carefully.
- **Personnel topics** – system leaders were concerned about the ability to retain and recruit qualified employees. Presidents in particular, also discussed, concerns with employee behavior.
- **Safety and security** – system leaders had concerns about the ability to effectively respond to emergencies and keeping students and employees safe.

Financial Risks

Internal audit assessed fiscal risk factors at each college and university, using several risk metrics outlined below:

Metric Category	Factors Measured
Audit (points = 350)	<ul style="list-style-type: none"> • Time since last internal control and compliance audit and the volume of findings • Whether the institution has an annual financial statement audit and the volume of findings from the last audit • Number of outstanding unsatisfactory audit findings
Financial Condition (points = 300)	<ul style="list-style-type: none"> • Operating gains or the size of losses • Composite Financial Index (CFI) • Overall materiality of financial transactions
Business Operations (points = 200)	<ul style="list-style-type: none"> • Change or loss in key personnel, knowledge, or skills • Diversity or complexity of operations • Number of incompatible security access rights
Other (points = 100)	Use of professional judgment to adjust for significant financial risks that were not part of the model.

The above metrics were assigned a point value for determining an overall ranking for each college and university. The table below shows the overall results of the financial risk modeling of the colleges and universities for the past two years. Note that the results varied significantly between institutions.

Risk	Results	Number of Colleges and Universities	
		May 2012	May 2011
High	≥ 350	5	10
Medium	< 350 and > 200	15	17
Low	< 200	18	11
Range of Scores		35 - 420	35 - 525

A two year comparison of the results indicated that financial risk has gone down. This is attributable to an overall increase in college and university CFI metrics and a decrease in the number of institutions with net income losses. In addition, two state universities had internal control and compliance audits during the year and an overall decrease in the number of outstanding audit findings.

The May 2012 results identified four universities and one college with high financial risk. Their scores generally ranked high as a result of material financial activity, large numbers of people with incompatible access, and the length of time since the last internal control and compliance audit. These institutions have not had a comprehensive internal control and compliance audit in over ten years.

We also assessed financial risk by looking at functional areas. Internal audit and finance division staff considered materiality, transaction volume, complexity, susceptibility to fraud, compliance requirements, and past audit history. We determined the following functional areas to have high risk:

- Banking and cash controls
- Purchasing cards
- Document imaging (an emerging area)
- Tuition and fees
- Financial aid
- Bookstore operations
- Equipment inventory
- Capital project administration
- Employee business expenses
- Student activity funds
- Academic resale activities

A future consideration for looking at financial risk will be the overall change to business processes and utilization of the COOP.

Information Technology Risks

Internal audit gathered information from a variety of sources to help identify and assess information technology risks:

- Held discussions with over 20 IT professionals and groups
- Attended annual MnSCU ITS Conference
- Attended bi-weekly CIO meetings and monthly Security Steering Committee meetings
- Reviewed a variety of documents including the IT Service Delivery Strategy, System Policies, Guidelines and Procedures, the 2011 ITS Satisfaction Survey, and past IT audit reports issue by the Legislative Auditors (9)

It was determined that while individual institutions manage their own local area networks and many applications critical to individual institutions, the system office manages mission critical enterprise systems. Every institution relies on these systems for a variety of things including student registration, financial aid, accounting, human resource and payroll transactions, and recording student grades, awards and transcripts. These systems, including Desire to Learn (D2L), the Integrated Student Record System (ISRS), and the Information or Data Warehouse contain large volumes of sensitive data on employees and students. The need for data confidentiality, integrity, and availability is generally high in these enterprise systems.

We also identified one system called ImageNow that is managed by a state university but used by the majority of institutions. The system is used for electronic document imaging, storage and work flow and is used for wide variety of business functions including human resources, financial aid, business office, and registrars. As a result this system may contain large volumes of sensitive data on employees and students. Also, it may be used to route documents for review and authorization. The need for data confidentiality, integrity, and availability is generally high in this system.

Section II: Use of Internal Auditing Resources

For fiscal year 2013, the Office of Internal Auditing has identified the following priorities based on the results of audit risk assessments and available resources. A summary of available technical resource hours is contained in Appendix A.

Core Assurance Services:

- Coordinate financial statement and federal financial assistance audits: Fiscal year 2012 marks the twelfth year that the Minnesota State Colleges and Universities contracted for an external audit of its financial statements. The external audit firm of CliftonLarsonAllen is under contract to provide audit services for the system-wide financial statements, Revenue Fund financial statements, and federal financial assistance. This will be the third year that CliftonLarsonAllen provides these services. In addition, audited financial statements are generated for 13 of the largest institutions in the system.

The Office of Internal Auditing is obligated by the current contract with CliftonLarsonAllen to provide staffing support for the system-wide financial statement and federal financial assistance audits.

- Monitor progress toward implementing audit finding recommendations: It is important that the Board of Trustees, Chancellor, and presidents have confidence that any problems revealed by audits receive appropriate attention. Internal Auditing monitors progress toward implementing all audit finding recommendations. Internal Auditing provides status reports on prior audit findings to presidents in January and June of each year. The Chancellor is informed about any unresolved audit findings as part of the annual presidential performance evaluation process.

- Assist with fraud inquiries and investigations: In these times of great uncertainty and change, it is reasonable to expect an increase in the number of issues that will require inquiries and possibly investigations. Accordingly, the amount of time reserved for this activity has again been increased in this plan.

Financial Internal Control and Compliance Audits

In fiscal year 2011, the Audit Committee undertook a comprehensive evaluation of the audit approach for the Minnesota State Colleges and Universities. One specific area that was included in the review was how to obtain internal control and compliance audit coverage given that a contractual relationship with the Office of the Legislative Auditor ended in fiscal year 2010 that provided much of this past coverage. It was concluded, given limited resources, that coverage be obtained by internal audit doing limited individual institution audits and focusing more heavily on functional areas. We again recommend this type of approach for fiscal year 2013 and the following audits:

- Bemidji State University and Northwest Technical College – Bemidji¹
- Banking and cash controls
- Document imaging
- Purchasing cards

Due to work within the COOP, we will maintain flexibility in audit resource scheduling over financial internal control and compliance areas. If a particular area is being transformed within the COOP, we will reschedule audit resources to focus on other areas.

Capital Construction Audit Pilot

The Office of Internal Auditing and the Finance division facilities unit plan to contract with an independent public accounting or consulting firm with expertise in construction auditing to perform contract compliance audits for one or more capital construction projects. We received \$50,000 in system office initiative funds for the pilot project.

Internal audit and the facilities unit will monitor the results of the pilot and recommend future steps for construction audits within the system. Depending on the outcome of the pilot, future work could be completed by contracting for construction compliance audits on an ongoing basis within the construction program. Other higher education systems have developed expertise within their internal audit department to complete this type of work.

Information Technology Audits

We recommend the following information technology audits:

- ImageNow – The audit will focus on information security controls and may incorporate other controls such as business continuity and disaster recovery controls.

¹ Both the university and the college have not had internal control and compliance audit since 1998.

- **ISRS Database Security:** The system office is in the process of implementing a new database technology. As a result the ISRS and Information Warehouse databases will be combined into a single database. This audit will focus on information security controls that protect ISRS data but may incorporate other controls.

The Office of Internal Auditing will use a one-time resource of \$100,000 from salary savings over the past two years to hire consultants to conduct some information technology audit work. We plan to work with the vice chancellor of information technology to identify potential topics. We will need to complete a request for proposal for these services.

Study with System-wide Interest

In past years, Internal Auditing has scheduled a study of a topic of major system-wide interest. Recent studies have focused on undergraduate student credit transfer, auxiliary and supplemental revenues, affiliated foundations and implementation of student success systems.

It is anticipated that the Audit Committee will select the next system-wide study topic in November 2012.

Advisory Services

The Institute of Internal Auditing allows internal auditors to provide advice and guidance to management through consulting or advisory services. These services can be invaluable to management when transforming an area to help ensure that appropriate risks and controls are built in up front rather than waiting until an assurance service engagement. In providing these services, it is important that management is responsible for decisions or actions that are taken as a result of the advice or guidance provided.

Specific areas that the Office of Internal Auditing plans to be actively engaged from an advisory services function are:

- Campus Services Cooperative projects, and
- Textbook study work group

In addition, the Office of Internal Auditing provides ongoing professional advice to colleges and universities and the system office.

Section III: Monitoring Other External Audits, Evaluations, and Reviews

In addition to the audit activities discussed in the previous sections, a variety of other external audits, evaluations, and reviews occur. Accordingly, Internal Auditing will monitor the results from the following activities and recommend corrective actions to the Chancellor, presidents, or the Board of Trustees, as warranted.

Other Required Audits – Some special grants and other funding sources have certain audit requirements that must be satisfied. State law requires that the Legislative Auditor review any audit contracts prior to their execution. Examples of required audits include:

- Minnesota Job Skills Partnership (MJSP) grants: colleges and universities who receive these grants are required to have an external audit at the close of each grant.
- ISEEK: is sponsored by iSeek Solutions, a Minnesota partnership formed in 1999. The mission of iSeek Solutions is to provide Minnesotans with excellent information resources about careers, education, and jobs. The operations of ISEEK are directed by a joint powers agreement which requires an annual audit. MnSCU is the fiscal agent for ISEEK and has contracted with CliftonLarsonAllen to complete annual audits.
- NCAA financial compliance: Division II institutions are required to have a financial agreed upon procedures review once every three years over athletic activities. All MnSCU state universities, excluding Metropolitan State University, will have this review completed by January 15, 2013.

Reviews Conducted by State and Federal Student Financial Aid Authorities – The Minnesota Office of Higher Education conducts periodic reviews of state financial aid programs administered by colleges and universities. Most colleges and universities are examined once every three years as part of that process. Internal Auditing reviews these reports to determine whether findings indicate more systemic issues needing attention. Internal Auditing will summarize and report on the results of these audits in April 2013.

Also, the U.S. Department of Education conducts ad-hoc program reviews and investigations of federal financial aid programs. The department schedules its reviews based on a risk assessment process and does not schedule routine reviews of each college and university. We are not aware of any scheduled reviews for fiscal year 2013.

Audits of Affiliated and Associated Organizations – Board Policy 8.3 requires periodic financial audits of affiliated foundations. Also, other related organizations, such as the statewide student associations submit annual audited financial statements to the system office. Internal Auditing will review these audit reports and determine the need to recommend any action by the Chancellor, presidents, or Board of Trustees.

Section IV: Administrative Items

In addition to conducting and monitoring audits, there are a several administrative activities the Office of Internal Auditing needs to complete during fiscal year 2013. These include:

External Assessment - The Institute of Internal Auditors (IIA), the professional organization responsible for promulgating the professional standards for the practice of internal auditing. IIA Standard 1312 – External Assessments requires internal audit organizations to undergo an external quality assessment review at least once every five years. The results of our last external assessment were presented to the Audit Committee in March 2007.

We have delayed the assessment this year because the office has undergone much transition in the audits we are completing. We want to make sure that we have a few audits for an assessment team to review as part of the external assessment. The office plans to contract for an external assessment in the fall of 2012. We believe the feedback and assurance this will provide our office, the Board and senior leadership will be invaluable.

Replacement of Office of Internal Auditing Administrative Systems – Applications used for recording and managing staff time, audit findings, and fraud inquires and investigations are outdated and are difficult to maintain. We plan to assess office needs for administrative systems and replace these systems as time permits.

Office Budget - The Office of Internal Auditing is included in the same budget process as other divisions in the system office. The table below provides information on planned audit expenditures for the Office of Internal Auditing and financial statement audits for fiscal year 2013. The budget is similar to fiscal year 2012.

Planned Audit Expenditures for Fiscal Year 2013

	2013 Planning
Salaries & Benefits (2)	1,149,594
Other	41,030
Total	1,190,624
Contract – CPA (1)	570,684
Contract – Other (3)	\$150,000
Total	720,684
Total Audit Costs	<u>1,911,308</u>

- (1) Includes financial statement audits for system-wide, revenue fund, 13 colleges and universities and A-133 audits. The cost of these audits is covered by individual colleges and universities and the Finance division.
- (2) The internal audit office manager provides assistance to the board office; salaries have not been adjusted for this assistance.
- (3) Budgeted amounts include contracting for IT and construction auditing services as discussed earlier in the document.

Audit Committee Meetings

A tentative schedule for Audit Committee meetings for fiscal year 2013 is contained in Appendix B.

Appendix A: Available Technical Resources

The table below provides a summary in the use of technical staff resources over the next three years. The table assumes full staffing; as of June 11, 2012, the office has one vacant position that we are working with human resources staff on filling.

Summary of Projected Staff Technical Hour Use for Next Three Years

Audit Area	Estimate 2013	Estimate 2014	Estimate 2015
External Auditor Support (1)	1,200	1,200	-
Follow-up	1,000	1,000	1,000
Fraud Investigations	1,300	1,300	1,300
Financial Internal Control and Compliance	2,600	2,600	3,000
Information Technology Projects	1,200	1,200	1,400
Systemwide Projects	900	900	1,500
Advisory Services	1,200	1,200	1,200
Planning	500	500	500
Other	500	500	500
Unassigned Time	400	400	400
Total	10,700	10,700	10,700

(1) Required by contract to provide staffing resources, plan to eliminate staffing support when contract expires.

Appendix B
Tentative FY 2013 Audit Committee Meetings - Draft as of June 8, 2012

Activity	October 2012	Nov 2012	Jan 2013	April 2013	June 2013
Internal Auditing & Audit Committee Administration	<ul style="list-style-type: none"> Review Annual Internal Auditing Report for fiscal year 2012, including status of unresolved audit findings Train Audit Committee members on responsibilities 	<ul style="list-style-type: none"> Review results of external assessment Select system-wide project topic. 		<ul style="list-style-type: none"> 1st Reading: revision to Board Policy 1C.2 Fraudulent or Other Dishonest Acts 	<ul style="list-style-type: none"> 2nd Reading: revision to Board Policy 1C.2 Fraudulent or Other Dishonest Acts Review results of audit risk assessment Approve Annual Audit Plan for fiscal year 2014
External Auditors		<ul style="list-style-type: none"> Review and approve release of audited financial statements 		<ul style="list-style-type: none"> Review results of federal financial aid audits. Review summary results of MN Office of Higher Education audits. 	
Internal Audit Projects	<ul style="list-style-type: none"> Review results of vulnerability management IT audit. 	<ul style="list-style-type: none"> Review results of internal control and compliance audit of banking and cash controls 	<ul style="list-style-type: none"> Review results of internal control and compliance audit of Bemidji State University and Northwest Technical College Review results of IT audit 	<ul style="list-style-type: none"> Review results of IT audit Review results of internal control and compliance audit 	<ul style="list-style-type: none"> Review results of internal control and compliance audit Review results of system-wide audit
Fraud Topics	<i>The Executive Director discusses incidents with the Audit Committee Chair and determines whether reporting of significant violations to the Board of Trustees is warranted. Reports normally are not discussed at public meetings due to data privacy considerations.</i>				
Time Estimate	1.5 hours	2 hours	1.5 hours	1.5 hours	2 hours