

Minnesota State Colleges and Universities
Office of Internal Auditing
Fiscal Year 2014 Annual Audit Plan

This document outlines the Office of Internal Auditing annual audit plan for fiscal year 2014. 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

The International Standards for the Professional Practice of Internal Auditing state the chief audit executive (CAE) is responsible for developing a risk-based plan to determine the priorities of the internal audit activity, consistent with the organizations goals. The standards state the plan must be based on a documented risk assessment, undertaken at least annually. The risk assessment should take into account the organization’s risk management framework and input from senior management and the board.

An enterprise risk management program was introduced to the Board of Trustees in May 2013. The information presented and discussed was taken into consideration in the audit risk assessment. The risk management framework introduced at the study session categorized risks into two overall classes, strategic and operational.

In determining our audit risk assessment results we utilized this same framework. However, we did complete concentrated work in two operational risk categories, financial and technology.

The methodology for completing the audit risk assessment included; discussions with system leaders at the system office and colleges and universities, involvement in task forces and other systemwide meetings, review of higher education thought leadership on risks and brain storming with internal audit staff.

Results were presented to the Audit Committee at their June 2013 meeting.

Strategic Risks

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.

Three strategic workgroups began work in fiscal year 2013; Future of Higher Education, System of the Future, and Workforce of the Future. The strategies and recommendations from these three workgroups may impact internal audit projects in the coming years.

Operational Risks

Through our discussions and research we summarized common themes of operational risks:

- **Human Resources** – system leaders were concerned about the ability to retain and recruit qualified employees. Presidents in particular, also discussed, concerns with employee behavior. In addition, leaders discussed the number of leadership transitions at both the system office and at colleges and universities.
- **Facilities (Safety and security)** – with recent events on leaders minds, the ability to keep employees and students safe has intensified. In addition, a common discussion point was the ability to effectively respond to emergencies.
- **Regulatory Compliance** – common areas of risk within higher education are compliance over: Cleary Act, American with Disabilities Act (ADA), Payment Card Industry Data Security Standards (PCI), Title IX, and requirements over record retention.
- **Technology** – we did do some specific focus work in this area with technology leaders, there were some two areas that were brought up more commonly among all leaders, including knowing the IT security posture of colleges and universities and concerns about ISRS.
- **Academic** – system leaders wondered about best practices and increases in international studies programs and expressed some concerns about the completeness of the implementation of DARS systemwide.
- **Change Management** – the work of the Campus Services Cooperative will be bringing significant change to the system. Along with this are many questions by leaders and employees across the system.

Several questions and concerns were raised about the clarity of roles and responsibilities of the system office. With the significant reductions in staffing as well as leadership turnover, employees are uncertain what is done and what is not done now.

- **System Branding** – questions were raised at the study session in May about the branding of the system.

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 2013	May 2012
High	≥ 350	7	5
Medium	< 350 and > 200	15	15
Low	< 200	16	18
Range of Scores		45 - 410	35 - 420

A two year comparison of the results indicated that financial risk has increased slightly. This is attributable to an overall decrease in college and university CFI metrics and an increase in the number of institutions with net income losses.

The May 2013 results identified four universities and three colleges 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. Most of 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:

- Grant Management
- Employee business expenses
- Tuition and fees
- Financial aid
- Bookstore operations
- Equipment inventory
- Student activity funds
- Academic resale activities
- Capital project administration
- Banking and cash controls
- Purchasing cards

A future consideration for looking at financial risk will be the overall change to business processes and utilization of the Campus Services Cooperative (CSC).

Information Technology Risks

Internal audit gathered information from a variety of sources to help identify and assess information technology risks. We held discussions with IT professionals, attended the annual MnSCU ITS Conference, and periodically attended CIO and Security Steering Committee meetings. We also reviewed a variety of documents including the IT Service Delivery Strategy and MnSCU System policies, procedures, and guidelines.

When considering risks associated with specific technologies, we generally considered the following:

- Confidentiality – Does the technology collect, process, or store large volumes of private or not public data that must be protected from unauthorized disclosure or use?
- Integrity – Does the technology, collect, process, or store large volumes of data that must be complete and accurate because it is used to help make significant business decisions?
- Availability – Does the technology support mission critical functions and need to be accessible (“up-and-running”) or have little to no down time?
- Accessibility – Is the technology accessible from the Internet or very broad audiences?

The system office manages MnSCU’s wide area network and several mission critical enterprise technologies that are used by each college and institution. The need for data confidentiality, integrity, and availability is generally high in the following enterprise technologies:

- The Learning Management System (LMS) for online learning
- The Enterprise Resource Planning (ERP) system that supports business functions including accounting, human resources, payroll, student registration, grades, transcripts and financial aid
- The Data Warehouse used for ad-hoc data analysis and reporting
- The Vulnerability Management System (VMS) for identifying software security vulnerabilities
- The Identity and Access Management (IAM) System for authenticating users access to key systems

It was also determined that the System Office restricts access to the Data Warehouse by only allowing a specific computer or two at each college and institution to access the system. Employees must first access the designated computer before they can subsequently access the Data Warehouse. Each college and university is responsible for properly managing and securing those designated computers. In addition, each college and university manages their own data centers, local area networks, and unique applications.

Section II: Use of Internal Auditing Resources

For fiscal year 2014, 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 2013 marks the thirteenth 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 fourth year that CliftonLarsonAllen provides these services. In addition, audited financial statements are generated for 13 of the largest institutions in the system and for ISEEK.

The Office of Internal Auditing is obligated by the current contract with CliftonLarsonAllen to provide staffing support for the systemwide 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 approximately January and June of each year. The Chancellor is informed about any unsatisfactorily resolved audit findings as part of the annual presidential performance evaluation process.
- Assist with fraud inquiries and investigations: In these times of 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

Fiscal 2014 will be the third year that we have completed financial internal control and compliance audits using a different approach. 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 is 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 2014 and recommend the following audits:

- Minnesota State University Moorhead
- Grant Management

Due to work within the CSC, we will maintain flexibility in audit resource scheduling over financial internal control and compliance areas. We plan to work closely with the CSC as we complete our work and will adjust work accordingly.

Capital Construction Audit Pilot

In fiscal year 2013, the Office of Internal Auditing contracted with an external audit firm with expertise in construction auditing to complete a contract compliance audit on two capital construction projects in coordination with the Finance division facilities unit. We received \$50,000 in system office initiative funds for the pilot project.

This work is currently in progress. Internal audit and the facilities unit have been actively engaged in monitoring the results of the audit firm. A final report for both capital construction projects is expected later this calendar year. The results and an evaluation by internal audit and the facilities unit on recommendations for future audit efforts in this area will be presented by the Audit Committee in fiscal year 2014.

Information Technology Audits

We recommend the following information technology audits:

- Learning Management System (LMS) – The audit will focus on information security controls and may incorporate other controls such as business continuity and disaster recovery controls.
- College and university controls over computers allowed access to the enterprise Data Warehouse: To help limit security risks the System Office only allows a few designated computers on each campus to access the Data Warehouse. This audit will focus on information security controls that protect these computers and may also incorporate other controls such as business continuity and disaster recovery controls.

The Office of Internal Auditing will use a one-time resource of \$100,000 from salary savings over the past few years to hire consultants to conduct some information technology audit work. We plan to work with the interim 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. Past 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 systemwide study topic in November 2013.

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.

One specific area that the Office of Internal Auditing plans to be actively engaged from an advisory services function is with the Campus Services Cooperative.

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.
- Radio Stations: Grants from the Corporation for Public Broadcasting require two institutions obtain a financial statement audit of its radio station.

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 2014.

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 2014.

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 2014. These include:

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 2014. The budget is similar to fiscal year 2013.

Planned Audit Expenditures for Fiscal Year 2014

	Fiscal Year 2014
Salaries & Benefits (2)	1,184,995
Other	48,700
Total	1,233,695
Contract – CPA (1)	578,684
Contract – Other (3)	\$100,000
Total	678,684
Total Audit Costs	<u>1,919,308</u>

- (1) Includes financial statement audits for system-wide, revenue fund, ISEEK, 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 as discussed earlier in the document.

Appendix A: Available Technical Resources

The table below provides a projected summary in the use of technical staff resources over the next three years. The table assumes full staffing.

Summary of Projected Staff Technical Hour Use for Next Three Years

Audit Area	Estimate 2014	Estimate 2015	Estimate 2016
External Auditor Support (1)	1,200	-	-
Follow-up	1,300	1,300	1,300
Fraud Investigations	1,600	1,600	1,600
Financial Internal Control and Compliance	2,200	2,200	2,200
Information Technology Projects	1,200	1,400	1,400
Systemwide Projects	1,200	2,000	2,000
Advisory Services	1,200	1,200	1,200
Planning	500	500	500
Other	500	500	500
Total	10,700	10,700	10,700

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

Minnesota State Colleges and Universities
Fiscal Year 2014 Audit Plan



Beth Buse, Executive Director, Internal Auditing

June 19, 2013

Minnesota State Colleges and Universities

The Minnesota State Colleges and Universities system is an Equal Opportunity employer and educator.

Overview

- Summary of external audit activity
- Need to maintain flexibility
 - Limited internal audit resources
 - Strategic framework workgroups' outcomes
 - Progress and work of Campus Services Cooperative (COOP)
- Focus on core and known projects
- Potential projects for future consideration

External Audit Activity

- Financial Statement Audits
 - Systemwide and Revenue Fund
 - 13 colleges and universities
- Financial Aid Audits
- Finalize Capital Construction Audit Pilot
- OLA Audit:
 - General Obligation Bond Proceeds
 - No known college and university specific audits
- Other Required Audits
 - Minnesota Job Skills Partnership grants
 - ISEEK
 - Radio Stations



27

Internal Audit Resources

- As of May 2013, internal audit at full staff complement
- IT Audit: one time use of consultants
- Increased demand for investigative services
- Delays in FY13 Audit Plan
 - Purchasing Card Audit: planning phase
 - IT Audit of ImageNow: planning phase



28

FY14 Audit Projects

- Ongoing Assurance Services
 - Follow-up on outstanding audit findings
 - Support to external auditors
 - Fraud inquiry and investigation work
- Financial Statement Analysis
- Financial Internal Control and Compliance Audits
 - Institution Audits
 - Minnesota State University Moorhead
 - Functional Areas
 - Grant Management



FY14 Audit Projects

- Technology Audits
 - LMS (Desire To Learn)
 - College and university controls over computer systems used to access ERP database
- Contracted Project(s)
 - Work with interim Vice Chancellor of Technology to identify topics
 - Potential: System-wide data center analysis



FY14 Audit Projects

- **Advisory Projects**
 - Campus Services Cooperative
 - Professional Advice
- **Information Gathering Projects**
 - Campus Cards
 - HIPAA (Health Insurance Portability and Accountability Act)
 - Identity and Access Management System (IAM) research
- **Administrative Projects**
 - Fraud policy update and review of roles and responsibilities
 - Internal Audit administrative system replacement

Future Projects for Consideration

- Clery Act Compliance
- Emergency Operations Planning
- International Studies Program
- PCI compliance

Board Action

- The Board of Trustees approves the Office of Internal Auditing annual audit plan for fiscal year 2014.