

**MnSCU Office of Internal Auditing
Annual Audit Plan
Fiscal Year 2003**

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 2003 audit plan, the Office of Internal Auditing completed a risk assessment of MnSCU by drawing on its experiences. The assessment consisted of determining functional areas and then identifying topics within each functional area where Internal Auditing employees felt the organization has exposure to risk, e.g. anticipated challenges or opportunities for improvement. Staff members then prioritized the topics by ranking each topic to determine those with the highest risk. Exhibit 1 documents the functional areas reviewed and the topic within each area that was determined to have the highest risk. In addition, other topics are included that were viewed to have a moderate level of risk.

**Exhibit 1
Risk Assessment for Fiscal Year 2003**

Functional Areas	HIGHEST Risk Topics	MODERATE Risk Topics
Academic Affairs	Strategic Program Review	<ul style="list-style-type: none"> • Credit Transfer • On-line Education
Student Affairs	Student Recruitment and Retention	<ul style="list-style-type: none"> • Services for Adult Learners • Intercollegiate Athletics
Information Technology	Useful, Accurate and Relevant Management Reports	<ul style="list-style-type: none"> • IT Security • User Friendly Software
Advancement	Raising Non-State Revenues	<ul style="list-style-type: none"> • MnSCU Image Management • Business & Community Partnerships
Finance	Cost Effective Business Practices	<ul style="list-style-type: none"> • Align Budgets to Mission • Integrity of Allocation Process
Facilities	Facilities Use at Optimal Capacity and Aligned with Mission	<ul style="list-style-type: none"> • Capital Funds Compliance • Facilities Maintained Adequately
Human Resources	Code of Conduct Training	<ul style="list-style-type: none"> • Employee Development (orientation, on-going training and performance evaluations) • Succession Planning
General	Effective System Structure	<ul style="list-style-type: none"> • Internal Controls System-wide

Source: Developed by the Office of Internal Auditing in April 2002.

The topics identified in Exhibit 1 were taken into account in building the fiscal year 2003 Internal Auditing plan. In addition, other considerations were taken into account when preparing the audit plan, including; aligning the plan to strategic directions charted by management and coordinating internal auditing activities with external auditing activities.

The Office of Internal Auditing has agreed to comply with the budget directives of Chancellor McCormick for fiscal year 2003. Internal Auditing's budget is included with the Office of the Chancellor budget submitted to the Board of Trustees. The Office of Internal Auditing is limited in ability to cut costs directly. However, it recognizes the chancellor's commitment to reduce central costs. Accordingly, the office has committed to investing 1,800 hours of resources this year into supporting the efforts of CPA firms. These firms will be auditing the MnSCU financial statements as well as six colleges and university financial statements. With this commitment, the office has essentially dedicated one position to these audits. Internal Auditing estimates that this investment saves MnSCU over \$150,000 per year in external auditing costs.

The increased effort to support the audit of MnSCU financial statements ties into the management reporting risks in Exhibit 1. The audit of MnSCU's financial statements for fiscal year 2001, by Deloitte & Touche, rendered an unqualified opinion for the organization. However, the independent auditor questioned whether individual colleges and universities had disciplined practices in place to complete a successful financial statement audit. The MnSCU Board of Trustees approved a modification to the original financial statement audit plan in December 2001. This modification extended the timeframe for obtaining audited financial statements for individual colleges and universities to fiscal year 2004.¹ This modification allowed a phased in approach to individual college and university audits. Six college and university are scheduled for audits for the fiscal year end June 30, 2002, the remaining colleges and universities will be phased in over the next two years.

An overview of the internal auditing activities proposed for fiscal year 2003 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 2003:

- Assist external auditors with auditing MnSCU financial statements (discussed previously).

¹ The original plan, approved in July 1999, had all individual college and university audits scheduled for completion for the fiscal year end of June 30, 2002.

- During fiscal year 2002, the Office of Internal Auditing conducted a system-wide study of board indicators. To address the recommendations from this study internal auditing plans to support the Board of Trustees on governance initiatives, such as indicators and monitoring during fiscal year 2003.
- Test board expenses quarterly for legal compliance. Internal Auditing has conducted quarterly audits of board expenses for about three 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 presented by the Board Secretary.
- 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.

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

As stated earlier, the Office of Internal Auditing is committed to supporting the strategic directions developed by Chancellor McCormick. Chancellor McCormick has requested Internal Auditing 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 are being scheduled for Fond du Lac Community and Tribal College and Minneapolis Community and Technical College.
- 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.
- Assist with implementation of the Board Policy Against Fraudulent and Other Dishonest Acts. Internal Auditing has been working with the MnSCU General Counsel and Vice Chancellor of Human Resources on this project.
- 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. Significant progress was made on developing a security infrastructure during fiscal year 2002. A full-time security officer was put in place, firewall technology was implemented at all MnSCU sites, and a security framework was developed which includes the development of two new board policies.
- 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 2003; 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. In addition to one-on-one advice, Internal Auditing will explore opportunities to develop other information resources such as Frequently Asked Questions, Self-assessment tools, and training programs on areas such as fraud and internal controls.

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.² 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. The fee for professional services in fiscal year 2003 is \$216,000, plus an estimated \$25,000 for expense reimbursements. Internal Auditing will work closely with Deloitte & Touche, LLP and provide significant technical assistance for this important project. The MnSCU Finance division amended the contract with Deloitte & Touche for assistance in implementing Government Accounting Standards Board (GASB) statement 35. The \$50,000 fee for these services will primarily be paid out in fiscal year 2003.

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

² 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.

services. In fiscal year 2003, these costs will be less than \$140,000 and in two years should be nearly eliminated.

At its April 2002 meeting, the Board of Trustees approved the decision to hire 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. The fee for professional services in fiscal year 2003 is \$107,600. In addition, the Board approved the decision to hire 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. The fee for professional services in fiscal year 2003 is \$73,000. Internal Auditing will also work closely with these two firms and provide technical assistance for these audits.

Primary Client	Professional Services									
	Assurance	Hours	Consulting	Hours	Fraud	Hours	Professional Advice	Hours	Planning and Development	Hours
Board of Trustees (37%)	Audited Financial Statements	1,800								
	Follow-up	700								
	Expense Reviews	200								
	Audit Readiness	300								
	System-wide study	3,000								
Chancellor and Presidents (53%)	Transition Reviews	320	Requested Consulting	2,400	Inquiries and Investigations	1,200	Seminar/ Workshops	175	Marketing Audit Services	555
	Request Work - campus	1,680	Request Work - Chancellor	400			Contacts and Questions	1,125		
	Request Work - Chancellor	600								
General (10%)							Roundtables and Task Forces	300	Relationship Building	645
							Self Assessment Tools	400	On-going Risk Assessment	200
Totals		8,600		2,800		1,200		2,000		1,400
		54%		18%		8%		13%		9%

Major Projects Planned for fiscal year 2003

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. Develop awareness of new 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.

Other projects to be developed during fiscal year 2003

1. Possible expansion of financial statement audits to other campuses and role of the OLA.
2. Supporting the priority needs of campuses and the Office of the Chancellor.