

# MnSCU Office of Internal Auditing

## Annual Report

### Fiscal Year 2002

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*Submitted to the MnSCU Board of Trustees on September 18, 2001, as required by Board Policy 1.D. Part 8.*

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Fiscal year 2002, marked another year of significant progress for the Minnesota State Colleges and Universities. Perhaps most noteworthy from an audit standpoint, was completion of the first system-wide comprehensive financial statement audit. The organization had been working toward this goal for several years: building reliable financial systems, training accounting staff, and developing proper business practices and disciplines. These efforts were rewarded with an unqualified (clean) opinion from the CPA firm of Deloitte & Touche, LLP, system-wide external auditor. The foundational work for preparing system-wide financial statements sets the stage for future efforts to obtain audited financial statements of individual colleges and universities. It also enables directing internal auditing resources toward other efforts such as developing a system-wide performance measurement framework.

#### **System-wide Studies**

Internal Auditing conducts periodic system-wide studies as requested by the Audit Committee. These studies often include a blend of assurances (attesting to the reliability of information) and consulting (advising on process improvements). One system-wide study, Board-level Indicators, was conducted in fiscal year 2002.

**Board-Level Indicators** – In April 2002, Internal Auditing released preliminary findings on its study of board-level indicators. In June, 2002, it released recommendations from this study. The recommendations urged the board to adopt a strategy-focused measurement framework. The publication of the MnSCU strategic plan in June 2002 provided an excellent opportunity to create such a framework. The Chancellor's work plan for fiscal year 2003 includes development of a strategic measurement framework. Internal Auditing will continue to work closely with the Office of the Chancellor to ensure that the measurement framework addresses interests of the Board of Trustees.

#### **Progress on Other Recent System-wide Studies**

Internal Auditing continued to track progress on issues identified in three other recent system-wide studies.

**Post-Secondary Enrollment Options Program** - In July 2001, Internal Auditing issued a system-wide study of the Post-Secondary Enrollment Options (PSEO) program. This program allows high school juniors and seniors to earn college credits. The report estimated that approximately 20% of Minnesota high school seniors earn college credits before graduating from high school; with MnSCU PSEO programs providing the majority of those credits. Some MnSCU colleges and universities generate almost 20% of their undergraduate credits from PSEO students and other colleges and universities have very little PSEO participation. The program often generates tension between secondary schools and colleges and universities. The report cited a series of policy, operational, and financial recommendations for improving this program.

Academic Affairs has taken the lead on addressing the issues cited in the report. It has used the report as a guide to draft policy revisions. It is also attempting to build cooperative relationships with secondary school superintendents and principals.

**Network Security** - In February 2001, Internal Auditing issued a system-wide study of network security. This study examined practices for securing access and use of information technology resources at each of the 34 MnSCU colleges and universities. The issuance of this report sparked much interest. Of particular concern to the Board of Trustees was the lack of firewalls or similar technology in place at the colleges and universities.

Since the issuance of the report significant progress has been made on implementing a security infrastructure at MnSCU, specifically:

- \* A full-time security administrator position was created.
- \* Firewall technology was implemented at most MnSCU sites.
- \* A security steering committee, consisting of Office of the Chancellor and college and university staff, meets regularly to provide input on security issues and security policy and procedure development.
- \* A MnSCU Information Security Plan was developed and is currently being implemented by the Information Technology Services Division.

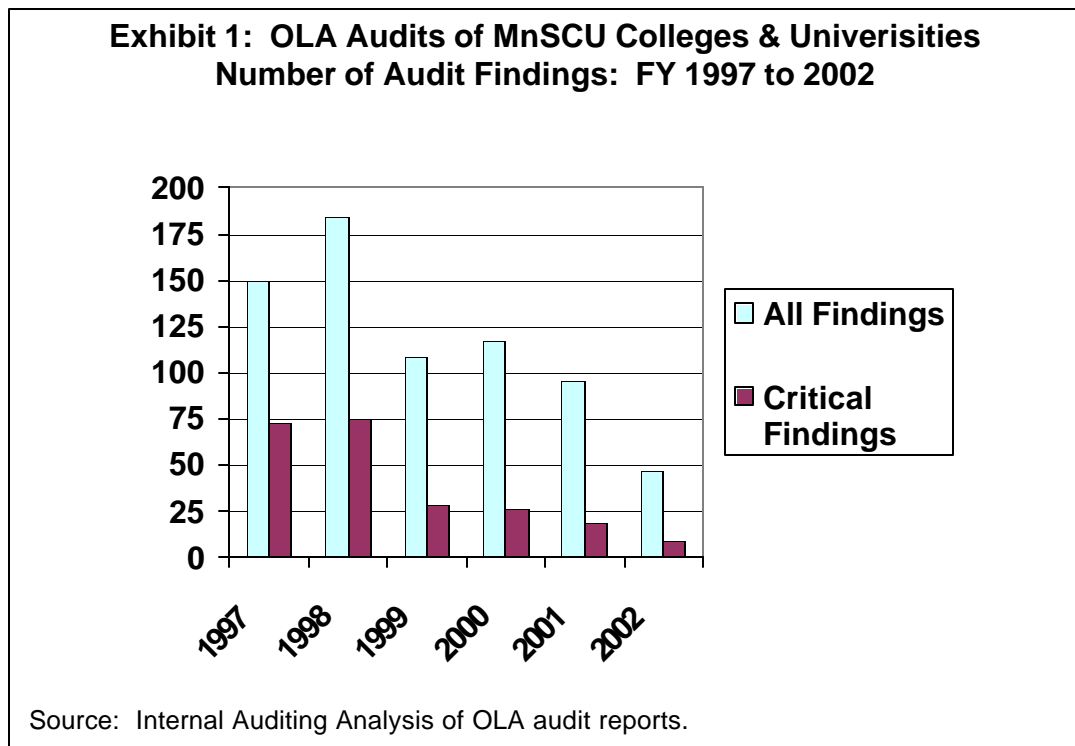
**Incumbent Workforce Training Programs** – In June 2000, Internal Auditing issued a report on Incumbent Workforce Training Programs, also known as Customized Training. This report was the first topic where Internal Auditing had the opportunity to work closely with MnSCU Academic Affairs on a system-wide study. Since the issuance of the report, Academic Affairs has made steady progress on developing and implementing issues and recommendations identified in the report.

## Assurance Services - External Audits

MnSCU contracts with the Office of the Legislative Auditor (OLA) and public accounting firms for external audits. The OLA audits have focused on the internal controls and fiscal compliance of individual colleges and universities. Public accounting firms have been hired to audit financial statements for the MnSCU system and six individual colleges and universities. An external audit is also needed to satisfy federal grant requirements. Internal Auditing coordinates its work with external auditors and leads efforts to contract with them.

### Internal Control & Fiscal Compliance Audits

Since 1996, MnSCU has had a contract with the Office of the Legislative Auditor (OLA) to obtain periodic finance-related audits of each college and university. In fiscal year 2002, the OLA completed audits of 12 MnSCU colleges and universities. These audits showed dramatic improvements from the previous audits of the same institutions. The prior audits had produced 97 audit findings, including 27 findings classified as critical issues. The 2002 audits produced 45 audit findings, including just 9 findings classified as critical. This trend toward improved audits has been consistent for the past several years. Exhibit 1 shows the history of audit findings for MnSCU colleges and universities.



### Audited Financial Statements

In December 2001, the Board of Trustees received the first set of audited financial statements for MnSCU. The audit was conducted by the CPA firm of Deloitte & Touche, LLP, which the board had hired in May 2001 to undertake the audit. The completion of the audit was a landmark occasion and fulfilled the second phase of a plan adopted by the MnSCU Audit Committee in July 1999. The first phase had been completed a year earlier when the Legislative Auditor conducted the first audit of the MnSCU balance sheet.

Deloitte & Touche, LLP issued management letters for the system-wide financial statement audit (13 findings), the Revenue Fund audit (six findings), and the Federal Financial Assistance audit (five findings). The most significant issue raised in the management letters was the question of whether colleges and universities were prepared to obtain audits of their individual financial statements (as contemplated by the third phase of the July 1999 Audit Committee plan). As a result, the Audit Committee approved an amendment to the plan that allowed for phasing in these individual college and university audits over three years. The amended plan called for initiating audits of the six largest MnSCU colleges and universities in fiscal year 2002 and phasing in the remaining colleges and universities over the ensuing two years. Accordingly, Internal Auditing led an effort to hire external auditors for St. Cloud State University, Minnesota State University, Mankato, Winona State University, Minnesota State University – Moorhead, Bemidji State University, and Northwest Technical College. Following issuance of a Request for Proposal and interview process, a search committee recommended that the board hire the firms of Larsen, Allen, Weishair, and Company and Kern, DeWenter, Viere and Company to audit these six institutions. The board accepted the recommendation and approved a three-year contract for each firm, starting with the audits of the fiscal year 2002 financial statements.

### **Requested Assurance & Consulting Services**

The Board of Trustees, as demonstrated in policy 1.D., intends to share internal auditing services with the Office of the Chancellor and college and university presidents. Accordingly, Internal Auditing has made its services available to the chancellor or a college or university president upon request.

Although some requested services are for traditional assurance type audits, many requests are for consulting services. Internal Auditing will accept consulting engagements as long as no conflict is created with its auditing role. The office supplements its traditional audit skills with the services of an organizational improvement coordinator for consulting projects.

During fiscal year 2002, Internal Auditing conducted several consulting or assurance services which had been requested.

Conducted an activity-based costing study of three multi-campus colleges.

Conducted climate surveys, including assessment of risk factors, for two colleges.

Facilitated a business process improvement workshop for the tuition process at a college.

Applied appreciative inquiry techniques to improve internal communications and coordination for a college customized training department.

Examined the student life accounts on behalf of a college student senate.

Conducted a close-out audit of a grant received by a college.

Reviewed the budget reporting practices of a university and reported results to the university faculty senate.

Tested spending by the chancellor and Board of Trustees.

Coordinated completion of four presidential transition reviews at colleges and universities for colleges and universities hiring new presidents.

Assisted the Board of Trustees with compiling performance evaluations of the Chancellor.

Initiated a feasibility study of shared administrative services between two institutions.

## **Fraud Inquiry and Investigation Support**

Internal Auditing assists with conducting fraud inquiries and investigations. Fortunately, these kinds of problems are not common. However, when evidence of fraud is identified it must be dealt with appropriately. The results of most fraud inquiries and investigations were reported to affected presidents or the chancellor for action. Board policy requires that only significant violations of board policy or law, be communicated to the Board of Trustees. Internal Auditing found it necessary to report only two such matter to trustees in fiscal year 2002.

## **Professional Advice**

Internal Auditing also makes itself available to offer professional advice on topics within its expertise. During fiscal year 2002, it fielded a variety of questions dealing with topics such as compliance with finance-related policies or laws, best practices, and assignment of financial duties. Internal Auditing representatives also sit on various MnSCU task forces and committees, including: Information Technology Round Table, Security Steering Committee, Student Data Integrity Group, the Finance User Group, and System Office Quality Steering Committee. Internal Auditing also contributed expertise to a consortium of colleges committed to using an alternative method of self-assessment for accreditation.

## **Analysis of Staff Hours**

Internal Auditing has a staff complement of ten professional auditors and consultants and one administrative assistant. The majority of its professional staff, regional audit coordinators, is located on college or university campuses throughout the system. The audit coordinators serve 5-7 colleges or universities located in their region.

Fiscal year 2002 was the fifth year of existence for the MnSCU Office of Internal Auditing. Table 2 shows the distribution of staff hours by year since the office was created 4 ½ years ago.

**Table 2: Internal Auditing Staff Hours – FY 1998 to 2002**

<b>Fiscal Year</b>	<b>Staff Hours</b>			
	<b>Technical</b>	<b>Planning</b>	<b>Admin</b>	<b>Total</b>
1998	2,403	631	1,038	4,072
1999	9,365	2,451	3,012	14,828
2000	11,734	1,454	3,606	16,794
2001	13,778	729	3,037	17,544
2002	11,529	1,077	4,151	16,757

Total staff hours generated in fiscal year 2002 was less than anticipated. This was attributed to having a vacant audit coordinator position for approximately half a year. The position was held open primarily due to budgetary constraints. Also, administrative time showed a marked increase in 2002. This increase was caused by the need to adapting internal auditing guidelines to new professional internal auditing standards promulgated for the profession in January 2002. Also, additional time was needed for the learning curve associated with developing a new professional staff person (this was the first professional position that had turned over in over two years).

Each year the Board of Trustees approves an audit plan for the ensuing fiscal year. In July 2001, the board approved a plan that estimated use of staff time. Table 3 shows how actual staff hour percentages applied compares to the audit plan for technical services.

**Table 3: Percentage of Internal Auditing Technical Service Staff Hours  
July 1, 2001 to June 30, 2002**

<b>Activity</b>	<b>Percentage of Staff Hours</b>	
	<b>Audit Plan</b>	<b>Actual</b>
<b>Technical Services</b>		
Assurance Services	50%	63%
Inquiry/Investigations Support	5%	6%
Consulting Services	25%	12%
Professional Advice	20%	19%
Total Percentage of Technical Hours	100%	100%

Table 3 shows a significant shift from consulting to assurance services. This shift is primarily attributable to the Organizational Improvement Program Coordinator spending a significant portion of time working on the Board Level Indicators project, which was classified as an Assurance Services activity.

Finally, it should be noted that Internal Auditing has committed the equivalent of one full-time position to supporting the needs of external auditors (shown as assurance services). This level of support was primarily a cost saving measure and has reduced the cost of external audit contracts by at least \$150,000.

## **The Future**

In June 2002, the Board of Trustees approved the Audit Plan for Fiscal Year 2003. Continual updates on Internal Auditing projects are available at the office website, [www.internalauditing.mnscu.edu](http://www.internalauditing.mnscu.edu). Also, Internal Auditing is developing performance metrics to include in future plans and annual reports.