

# MnSCU Office of Internal Auditing Annual Report Fiscal Year 2003

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*Submitted to the MnSCU Board of Trustees on September 17, 2003, as required by Board Policy 1.D. Part 8.*

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During fiscal year 2003, the Office of Internal Auditing continued to help the Minnesota State Colleges and Universities build a strong foundation for integrity and reliable information during fiscal year 2003. Efforts to acquire audited financial statements expanded from the system-level to include the six largest colleges and universities. The office spent considerable time working with colleges and universities to implement board policy 1.C.2. on fraud and other dishonest acts. It also facilitated efforts to develop the system-level accountability framework.

## **Assurance Services Requested by Board of Trustees**

The Office of Internal Auditing spent the majority of its time working on assurance services which focus on improving the quality and reliability of information. The following assurance services were conducted at the request of the Board of Trustees.

### **Audited Financial Statements**

Fiscal year 2003 marked the second year that the Minnesota State Colleges and Universities contracted for an external audit of its financial statements. The external audit firm of Deloitte & Touche, LLP provided an unqualified (clean) opinion on the financial statements again. This accomplishment was particularly noteworthy because the financial statements had to be converted to comply with new accounting principles promulgated by the Governmental Accounting Standards Board. The Financial Reporting Unit of the Office of the Chancellor and the Office of Internal Auditing both worked very hard to deliver the audited financial statements.

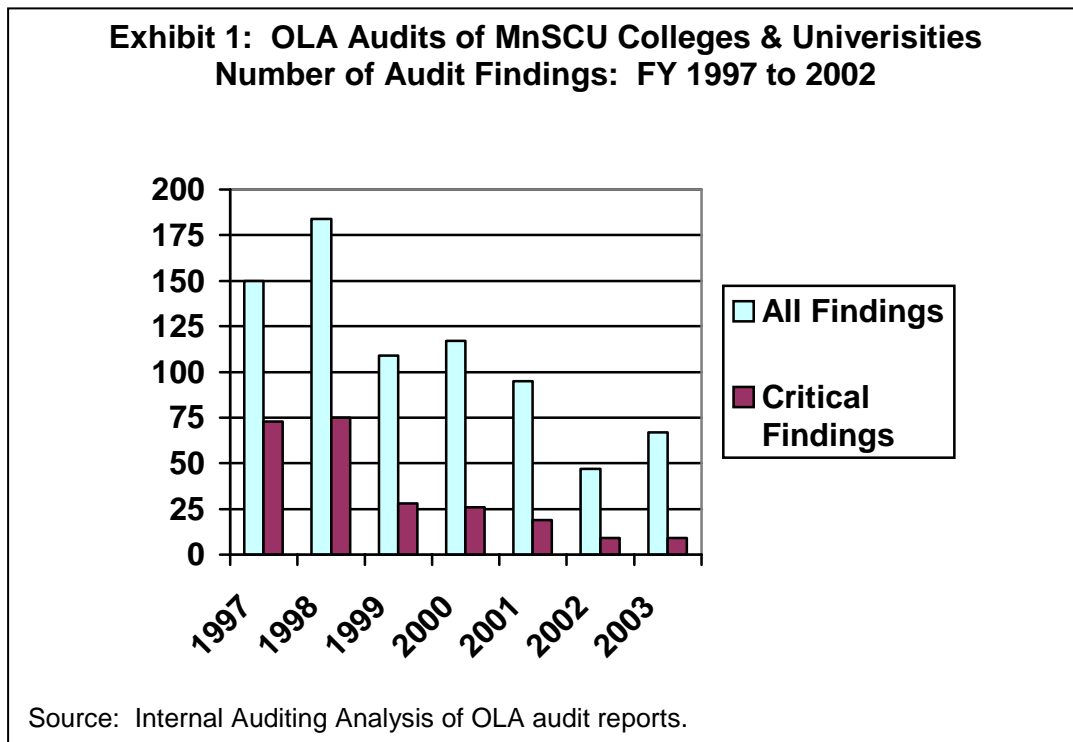
In addition, audited financial statements were developed for the six largest institutions: St. Cloud State University, Minnesota State University Mankato, Minnesota State University Moorhead, Winona State University, Bemidji State University, and Northwest Technical College. The financial statements for all six institutions received unqualified audit opinions from the CPA firms that the board hired to conduct the audits. The same firms remain under contract to audit these institutions for the next two years.

Efforts to develop audited financial statements of individual institutions were expanded further in April 2003 when the board hired CPA firms to conduct the first financial

statement audits of six additional institutions: Southwest Minnesota State University, Metropolitan State University, Minneapolis Community & Technical College, Century College, Hennepin Technical College, and Rochester Community & Technical College.

**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 2003, the OLA completed audits of 10 MnSCU colleges and universities. These audits showed continued improvement from the previous audits of the same institutions. The 2003 audits produced 67 audit findings, including just 9 findings classified as critical. Exhibit 1 shows the history of audit findings for MnSCU colleges and universities. The presidents have responded to these audit reports and developed corrective action plans. Internal Auditing believes that the corrective action plans will provide reasonable remedies to these problems on a timely basis. Internal Auditing monitors progress toward implementing the corrective action plans. Any exceptions to making satisfactory progress will be reported to Chancellor McCormick and the Audit Committee, if necessary.



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Also during fiscal year 2003, the Legislative Auditor issued a report on an information technology application audit of the SCUPPS system (MnSCU human resources system). This audit report contained ten audit findings. Internal Auditing ranked eight of the ten

findings as critical, meaning that immediate corrective action was encouraged. Most findings centered on the need for the Office of the Chancellor Information Technology Services Division to improve general security and access controls for MnSCU IT systems. Vice Chancellor Ken Niemi has developed a corrective action plan to address these issues. Again, Internal Auditing will monitor progress toward implementing these audit findings and report exceptions to Chancellor McCormick and the Board of Trustees, as necessary.

### **System-level Accountability Framework**

In June 2003, the Board of Trustees approved the design and implementation schedule for the System-level Accountability Framework. This action culminated the efforts that Internal Auditing had facilitated throughout the year. A cross-functional task force of representatives from the Office of the Chancellor and colleges and universities had drafted the framework for the board's consideration. At a February 2003 retreat, the Board of Trustees met with presidents and the Chancellor's cabinet to consider preliminary information from the task force.

The accountability framework is an exciting development for the Minnesota State Colleges and Universities. It comes at a time when higher education is being called upon to deliver more accountability to its stakeholders.

### **Reports Requested by the Board in Previous Years**

Several Internal Auditing studies conducted in previous years continue to create positive changes in the organization. Internal Auditing is asked periodically to provide additional services based on its experience with the studies. Some studies that continued to have impact were the July 2001 study of the Post-Secondary Enrollment Options Program, the February 2001 study of Network Security, and the June 2000 study of Incumbent Workforce Training Programs.

### **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 2003, Internal Auditing conducted several consulting or assurance services which had been requested.

- Conducted a feasibility study of shared administrative services between two institutions.
- Conducted an activity-based costing study of Metro Alliance business offices.
- Facilitated a business process improvement workshop for a college.
- Conducted a close-out audit of state grant funds that a state university received for a special program.
- Assessed the integrity of data recorded by colleges and universities on the ISRS customized training module.
- Tested spending by the chancellor and Board of Trustees.
- Coordinated completion of two presidential transition reviews at colleges hiring new presidents.
- Assisted the Board of Trustees with compiling the performance evaluations of the Chancellor.

### **Fraud Inquiry and Investigation Support**

Internal Auditing assists with conducting fraud inquiries and investigations. 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 one such matter to trustees in fiscal year 2003.

Also, during fiscal year 2003, Internal Auditing assisted institutions with implementing Board Policy 1.C.2 on Fraud and Other Dishonest Acts. Internal Auditing representatives met with all presidents and their executive staffs to discuss the new policy. Presidents have identified key contacts on campus for the policy.

Internal Auditing received reports about 80 incidents of potential fraud or dishonest acts during fiscal year 2003. About 60% of these incidents related to theft of public property. These matters were reported to local law enforcement officials.

## **Professional Advice**

Internal Auditing also makes itself available to offer professional advice on topics within its expertise. During fiscal year 2003, Internal Auditing fielded about 300 questions dealing with various topics. Common questions pertained to compliance with board policies and best practices. 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 2003 was the sixth 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 5 ½ years ago.

**Table 2: Internal Auditing Staff Hours – FY 1998 to 2003**

<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
2003	12,315	1,052	2,849	16,216

Total staff hours generated in fiscal year 2003 continued to decline due to budget difficulties. A vacant audit coordinator position remained open for over six months. Administrative time declined markedly, however, because most internal auditing guidelines were updated in 2002. As a result, more staff hours could be invested in technical services.

Each year the Board of Trustees approves an audit plan for the ensuing fiscal year. In June 2002, 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**

Activity	Percentage of Staff Hours	
	Audit Plan	Actual
<b><u>Technical Services</u></b>		
Assurance Services	54%	53%
Inquiry/Investigations Support	8%	11%
Consulting Services	18%	18%
Professional Advice	11%	10%
<b>Planning &amp; Development</b>	9%	8%
Percentage of Total Applied Hours	100%	100%

Finally, it should be noted that Internal Auditing has committed the equivalent of two full-time positions to supporting the needs of external auditors (shown as assurance services). This level of support was primarily a cost saving measure and has made the cost of external audit contracts affordable.

## **The Future**

In June 2003, the Board of Trustees approved the Audit Plan for Fiscal Year 2004. Continual updates on Internal Auditing projects are available at the office website, [www.internalauditing.mnscu.edu](http://www.internalauditing.mnscu.edu).