

Minnesota State Colleges and Universities
Office of Internal Auditing
Annual Audit Plan
Fiscal Year 2006

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. For fiscal year 2006, this risk assessment will be incorporated as phase I of the system-wide project described later in this plan.

The Office of Internal Auditing has agreed to comply with the budget directives of Chancellor McCormick for fiscal year 2006. As a result, this audit plan is built on the premise that Internal Auditing will have the same level of resources as in fiscal year 2005.

An overview of the internal auditing activities proposed for fiscal year 2006 is attached at the end of this plan. 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 2006:

- **Support External Auditors** – Internal Auditing has ongoing responsibilities for supporting the external auditors that examine the system-level and 12 stand-alone institutional financial statements. This effort ensures that contracts with external auditors are affordable and that external auditors consider high risk financial transactions.

- **Transition System-Level Accountability Framework to other Board Committees** - During fiscal year 2003 - 2005, the Office of Internal Auditing facilitated efforts to develop a system-level accountability framework. Internal Auditing has also led efforts to design a web site suited for the unique needs of the Board of Trustees. Work on the framework and web site is now substantially completed. Accordingly, it is time to transition responsibility for the accountability indicators and measures so they are considered as an integral part of the business of other board committees as appropriate. During fiscal year 2006, the Executive Director of Internal Auditing will work with other members of the Chancellor's Cabinet to ensure a smooth transition of these responsibilities. Internal Auditing will continue to be involved with developing the final features of the framework and facilitating its continuous improvement.

- **Test Board Expenses Quarterly for Legal Compliance** - Internal Auditing has conducted quarterly audits of board expenses for several 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.
- **Monitor Progress toward Implementing Audit Findings** - It is important that the Board of Trustees receive periodic assurance that any problems revealed by the audits receive appropriate attention. In fiscal year 2006, Internal Auditing will extend its follow-up procedures to include issues cited in audits of foundations affiliated with MnSCU colleges and universities. The Office of Internal Auditing reports progress toward implementing audit findings to the presidents and the Chancellor. It is prepared to provide exception reports to the board if adequate progress is not made to resolve prior audit findings.
- **Reinforce Implementation of the Board Policy Against Fraudulent and Other Dishonest Acts** – Since the board approved Policy 1.C.2 in June 2002, Internal Auditing has worked with the Chancellor’s Cabinet and presidential executive teams to implement its provisions. During fiscal year 2006, Internal Auditing will extend those efforts to assess the effectiveness of current mechanisms for making employees aware of their reporting obligations under the policy.
- **Conduct studies that have significant system-wide interest** – Each year, Internal Auditing schedules a study of a topic of major system-wide interest. For fiscal year 2006, the office proposes to complete a phased study that will focus on the “Assurance” component of the System-level accountability framework. Phase I of this project will involve inventorying all significant legal and policy requirements and mandatory reporting requirements. Phase II of the project will apply a risk assessment methodology to identifying provisions identified in Phase I that warrant further study. Phase III of the project will test provisions selected in Phase II for reliability and compliance.

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. For example, Internal Auditing assisted with planning for the Board of Trustees retreat held in November 2004. Internal Auditing also reports to the board any significant violations of board policy or law, as required by Board Policy 1.D.

SERVICES TO THE CHANCELLOR

The Office of Internal Auditing is committed to supporting the strategic directions developed by Chancellor McCormick. Chancellor McCormick has requested Internal Auditing to complete a quarterly 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.

Internal Auditing activities designed to assist the Chancellor include:

- **Facilitate 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 will be scheduled as presidential vacancies occur. Internal Auditing facilitated transition reviews of Hennepin Technical College, Winona State University, Minnesota State Community & Technical College, and Northland Community & Technical College in fiscal year 2005.
- **Assist the Office of the Chancellor Continuous Improvement Initiative** – This project supports the Associate Vice Chancellor for Continuous Improvement in establishing a continuous improvement process for the Office of the Chancellor. Internal Auditing personnel also have been active members of the System Office Quality Steering Committee that is working toward implementing quality initiatives within the Office of the Chancellor.
- **Conduct fraud investigations, as requested** – Pursuant to Board Policy 1.C.2, Internal Auditing services are available upon request of the Chancellor to conduct fraud investigations. These services are provided on an ad-hoc basis when and if fraud inquiries warrant investigations.
- **Assist Cabinet members with high risk areas** – Internal Auditing assists Vice Chancellors and other Cabinet members with addressing concerns about a variety of high risk areas. For example, at the request of the Vice Chancellor for Information Technology, Internal Auditing is represented on system-level councils concerned with IT security. The Executive Director of Internal Auditing actively supports the Diversity Task Force created by the Chancellor. Internal Auditing supports efforts to improve system-wide financial aid procedures in areas such as Satisfactory Academic Progress and Return-to-Title IV. For fiscal year 2006, Internal Auditing has agreed to assist the Vice Chancellor for Human Resources by testing whether state university faculty overload assignments exceeding 224 duty days are in compliance with contract provisions.
- **Support Ongoing Monitoring Activities** – Since its inception, Internal Auditing has monitored the status of unresolved audit findings. Initially, this process included audit findings cited by the Office of the Legislative Auditor. It has now been expanded to include findings issued by external auditors and other matters requiring remediation. Monitoring results are reported to the presidents throughout the fiscal year. Also, a status report is provided to the Chancellor at the end of the fiscal year. The Chancellor uses the report as part of the annual presidential performance review process.

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 2005; include

- Facilitation services,
- Self-assessment workshops,
- Process mapping, flowcharting, and polarity maps,
- Organizational and process redesign services,
- Climate surveys, and
- Assistance with designing solutions to complex audit findings.

Internal Auditing also offers investigative and inquiry support services to presidents, as requested. Professional advice is available to any interested stakeholders.

Budget constraints require Internal Auditing to be selective about supporting presidential requests for assurance and consulting services.

COORDINATION WITH EXTERNAL AUDITORS

The Office of the Legislative Auditor (OLA) has been a primary source of external auditing services for the System. Since shortly after the 1995 merger, the System has had a contract with the OLA to conduct financial audits of each college and university over a three year schedule. With the hiring of CPA firms to conduct financial statement audits, the role of the OLA has changed. The Legislative Auditor services now focus on system-wide information technology services and the smaller colleges and universities that do not have annual CPA audits.

In April 2004, the Board of Trustees selected the firm of Kern, DeWenter, Viere & Company (KDV) to serve as the principal auditor of the system for the next three years. KDV will audit the comprehensive system financial statements, Revenue Fund financial statements, and federal financial assistance programs for the fiscal years 2004 – 2006.

Internal Auditing works closely with KDV and provides significant technical assistance for this important project.

In addition, it should be noted that the principal auditor contracts have phased out most of the System's obligation to pay state indirect costs. According to state law, the Minnesota Department of Finance charges the System 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, the System paid \$320,000 for these audit services. In fiscal year 2006, these costs are expected to be less than \$20,000.

To augment the system-wide audit, the board has developed a plan to obtain financial statement audits of individual colleges and universities. Internal Auditing also works closely with these firms and provides technical assistance for these audits. The external audit plan has undergone periodic changes in recent years. The most recent plan, approved by the Board of Trustees in January 2005, requires stand-alone annual financial statement audits of 12 of the largest institutions in the system. Internal Auditing works with the MnSCU Finance Division to make arrangements for these audits and support the work of these external auditors.

Primary Client	Professional Services									
	Assurance	Hours	Consulting	Hours	Fraud	Hours	Professional Advice	Hours	Planning and Development	Hours
Board of Trustees (48%)	Audited Financial Statements	2,400								
	Follow-up and other Audit Services	1,700								
	Expense Reviews	200								
	System-wide studies	3,000								
Chancellor and Presidents (43%)	Presidential Transition Reviews	200	Request Work – Chancellor	900	Inquiries and Investigations	1,200	Contacts and Questions	1,200	Project Development	200
	Request Work – Chancellor	1,200	Request Work - Presidents	900						
	Request Work - Presidents	800								
General (9%)							Roundtables and Task Forces	400	Relationship Building	200
									On-going Risk Assessment	300
Totals		9,200		1,800		1,200		1,600		700
		64%		12%		8%		11%		5%

Major Projects Planned for fiscal year 2006

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. Continue with implementation of policy on "Fraud and Other Dishonest Acts."
4. Conduct system-wide study of significant policy/legal provisions and mandatory reports.
5. Support functional responsibilities subject to the oversight of the Vice Chancellors.

Other projects to be developed during fiscal year 2006

1. Supporting the priority needs of campuses and the Office of the Chancellor.