

Minnesota State Colleges and Universities
Office of Internal Auditing
Fiscal Year 2015 Annual Audit Plan

This document outlines the Office of Internal Auditing’s annual audit plan for fiscal year 2015. It includes all internal and external audit activities planned for the year, as required by Board Policy 1D.1, Part 6. This document contains five sections and one appendix:

Section I – Audit Risk Assessment Results

Section II – Use of Internal Auditing Resources

Section III – Other Audit Activities

Section IV – External Audits, Evaluations, and Reviews

Section V – 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.

The methodology for completing the audit risk assessment included; discussions with many system leaders at the system office and colleges and universities, discussions with several board members, involvement in task forces and other systemwide meetings, review of thought leadership on risks, and internal audit staff observations. In addition, an evolving tool used to assess college and university financial risk was updated.

In addition, the methodology included reviewing information from the enterprise risk management program that was introduced to the Board of Trustees in 2013. The program framework categorized risks into two overall classes, strategic and operational. In determining the internal audit risk assessment results, the same framework was utilized. However, concentrated work was completed in two operational risk categories, financial and technology.

Results were presented and discussed at the May 2014 Audit Committee meeting.

Strategic Risks

In November 2013, the board adopted the Charting the Future report and recommendations. The recommendations work to increase access, affordability, excellence, and service by forging

deeper collaborations among our colleges and universities to maximize our collective strengths, resources, and the talents of our faculty and staff.

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.

Eight implementation teams will be working on implementing the recommendations from the Charting the Future report in fiscal year 2015. Internal Auditing will stay abreast in these efforts to determine if changes need to be made to the audit plan.

Operational Risks

The primary theme through most conversations with system leaders are the challenges that resource constraints have on the system. Specific discussion points included:

- Impact and Support of Leadership Transitions – leaders discussed the number of leadership transitions at both the system office and at colleges and universities. Half of all presidents and system office cabinet positions have had turnover in the past two years, with additional turnover expected in fiscal year 2016. In addition, colleges and universities are seeing significant turnover within their operations.
- Decentralized Processes - the system primarily relies on decentralized processes at colleges and universities. With personnel turnover and budget challenges, institutions are finding it challenging to sustain adequate internal controls over operations.
- Increasing Complexity of Operations and Regulations – state, federal, and industry requirements continue to place additional responsibilities on colleges and universities with limited ability add personnel.
- Energy and Resources Needed to Implement Change – the work of the implementation teams in Charting the Future and the Campus Services Cooperative will be bringing significant change to the system. System leaders are concerned about the effort needed to drive this needed change in the system.
- Cyber Security – security is a risk area on the minds of most individuals, within MnSCU but also across all industry sectors. The risk of disclosing private or not public data collected, processed, and stored by MnSCU's enterprise computer systems as well as college or university-specific computer systems were the most frequent topic of discussions.
- Risk Management – the enterprise risk management program within the system is still evolving.

Topics that arose out of conversations for consideration as audits included: international and study abroad programs, defined contribution pension administration, workers compensation

management, the Campus Services Cooperative, and regulatory compliance areas (Clery Act, Environmental and Occupational Health and Safety, Payment Card Industry Data Security Standards, Title IX, and the Affordable Care Act).

Financial Risks

Internal audit, in collaboration with the Finance Division, developed a model for assessing financial risks at colleges and universities. The model has been used for the past three years and contains 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 = 275)	<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 overall results of the financial risk modeling for this year showed increased financial risk. The increased risk is attributable to a number of factors including; increase in number of years since last internal control and compliance audit, increase in number of institutions with a negative net operating income (FY12 = 10 to FY13 = 20), decrease in CFI by 23 institutions from FY12 to FY13, and change in key personnel at institutions.

Questions about the adequacy of this tool have been raised by senior management. Internal auditing plans to work closely with the Finance Division and the board over the next year to determine the desired factors for driving financial risk and make modifications to the tool as needed.

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
- Equipment inventory
- Student activity funds
- Academic resale activities
- Capital project administration

- Bookstore operations
- 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 attended CIO and IT Risk Management Committees and the IT Guidelines Working Group meetings. We also participated in a recent Educause Security Professionals Conference that brought together IT security professionals from higher education to discuss and learn about a variety of relevant topics. Finally, we reviewed 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?

Although all four of the above risks are important the topic of most discussions were the risk of disclosing private or not public data, including data on current and past students, faculty, and staff.

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

- 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 user access to key systems

In addition, each college and university manages its own data centers, local area networks, and unique applications and databases, including systems and databases that house private or not public data on students, faculty, and staff.

Section II: Use of Internal Auditing Resources

A summary of projected technical staff time allocation is shown below.

Summary of Projected Technical Staff Time Allocation for Fiscal Year 2015

Audit Area	Percentage of Time
Employee Benefits	18%
Administrative	8%
Investigations	11%
Planning and Development	3%
Advisory Services	3%
Follow-up	4%
Assurance Services	53%
Total	100%

For fiscal year 2015, the Office of Internal Auditing has identified the following priorities based on the results of the audit risk assessment and available resources.

Ongoing Assurance Services:

- 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 and investigations receive appropriate attention. Internal Auditing monitors progress toward implementing all audit finding recommendations, with particular attention to significant issues. Internal Auditing provides status reports on outstanding audit findings to presidents each year. The chancellor is informed about any unsatisfactorily resolved audit findings as part of the annual presidential performance evaluation process.
- Fraud inquiries and investigations: Board Policy 1C.2 Fraudulent or Other Dishonest Acts requires presidents and the chancellor to consult with the Executive Director of Internal Auditing to determine responsibilities for conducting fraud investigations. Internal Auditing continues to be actively engaged with colleges and universities in conducting needed investigations. Due to the continuous demand for these services, Internal Auditing is in the process of creating a position to focus on investigations.

Financial Internal Control and Compliance Audits

In January 2014, the Audit Committee approved a revised financial audit plan for the system. The main focus of the plan was to reduce the number of individual college and university financial statement audits and increase internal control and compliance audit coverage. A

specific recommendation for fiscal year 2015 was to expand internal audit resources to enable 3-4 additional college and university reviews. Feedback from presidents and other stakeholders was that this type of audit coverage provides a ‘tone at the top’, which is needed on a more regular basis.

Proposed college and university financial internal control and compliance audits for fiscal year 2015 include:

- Minnesota State University, Mankato
 - Last internal control and compliance audit was in 1999.
 - Total assets as of June 30, 2013 were \$353 million (11% of system total assets)
- Minneapolis Community and Technical College
 - Last internal control and compliance audit was in 2002
 - Total assets as of June 30, 2013 were \$144 million (5% of system total assets)
- Dakota County Technical College
 - Last internal control and compliance audit was in 2009
 - Total assets as of June 30, 2013 were \$49 million (2% of system total assets)
- Itasca Community College
 - Last internal control and compliance audit was in 2008
 - Total assets as of June 30, 2013 were \$17 million (.5% of system total assets). The Northeast Higher Education District total assets as of June 30, 2013 were \$84 million (3% of system total)

The fiscal year 2014 audit plan included an approved functional financial internal control and compliance audit of grant management. Planning work will be completed in fiscal year 2014 but audit fieldwork and reporting will be completed in fiscal year 2015.

Operational Audits (non-financial)

In past years, Internal Auditing has completed systemwide operational audits of non-financial areas. The last study completed in May 2010 focused on undergraduate student credit transfer. Other studies have included reviews of auxiliary and supplemental revenues, affiliated foundations and implementation of student success systems. Two audits are proposed for fiscal year 2015:

- Academic Topic: International and Study Abroad Programs – many institutions offer short-term and long-term study abroad programs. In addition, some system institutions have relationships with partner institutions around the world. This audit would determine the breadth of programs offered and assess college and universities processes for mitigating risks association with these programs.
- Regulatory Compliance Topic: Clery Act - the federal act requires timely crime reporting. Colleges and universities must maintain a publically accessible crime log that is up-to-date

within 48 hours, warns campus communities if there is an immediate threat, and release an annual report (by Oct 1st) detailing crime statistics for the prior three years. Institutions that provide on-campus housing are also required to have written procedures on emergency response, evacuation, and missing student notification. The audit would review requirements under the act and assess how colleges and universities are complying with the requirements.

Information Technology Audits

The following information technology audits are planned:

- College and university controls over computers and networks allowed access to the enterprise data warehouse: To help limit security risks, the system office ITS Division restricts data warehouse access to only designated computers on designated networks at each campus. These computers and networks are required to meet specific security guidelines. Approved in the 2014 Audit Plan, planning for this audit began in June 2014 and fieldwork will be completed during FY 2015. The audit will focus on information security controls that protect these computers and networks. The audit will also consider college and university policies and procedures that address the handling and protection of any data it exports from the enterprise data warehouse and may or may not allow to be further transferred to other internal or external computers and networks. In addition, the audit may incorporate a review of business continuity and disaster recovery controls.
- High-level security assessments of key controls at four institutions: To help provide additional assurances at the institution level, internal audit plans to incorporate an IT security component in the financial internal control and compliance audits planned at individual colleges and universities. Planning will include developing an approach that produces a high-level assessment of select key controls by spending a minimal amount of time on the campuses.
- Networking security controls for enterprise computer systems: This audit will study the network architecture and controls that help to protect MnSCU's key enterprise computer system' managed by the system office ITS Division.

The Office of Internal Auditing has one dedicated position for IT audits. The plan above cannot be completed without additional resources. We propose using the IT audit designated one-time resources of up to \$100,000 to hire a consultant(s) to primarily augment staffing. The one time resource was from salary savings over the past several years. Use of the funds has been delayed due to transitions in both internal auditing and the ITS Division.

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.

Two specific areas that the Office of Internal Auditing plans to continue to be actively engaged from an advisory services standpoint include; the Campus Services Cooperative and the IT guidelines working group.

In addition, the Office of Internal Auditing provides ongoing professional advice to colleges and universities and the system office.

Section III: Other Internal Auditing Activities

Evaluate Results of 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.

The results of this work were presented to the Audit Committee in June 2014 by the external audit firm. Internal audit and the facilities unit plan to evaluate the results and propose recommendations for future audit efforts in this area.

Fulfill Recommendations from January 2014 Revised Financial Audit Plan: As discussed earlier, in January 2014, the Audit Committee approved a revised financial audit plan for the system. Recommendations related to increasing college and university internal control and compliance audits were to explore alternative resources and/or methods to gain audit coverage and provide update to the committee by January, 2015 and to continue refinement of the risk assessment tool used for audit planning.

Revise Board Policies: Two board policies need to be reviewed and revised as appropriate:

- Board Policy 1D.1 Office of Internal Auditing – this policy contains the audit charter for the Office of Internal Auditing, certain changes are required to comply with internal auditing standards.
- Board Policy 1C.2 Fraudulent or Other Dishonest Acts – this policy was adopted by the board in June 2002 and has not been review since that time.

Review of Board of Trustee's expenditures: Internal Auditing conducts periodic reviews of expenses incurred by the Board of Trustees, and submits an audit report to the Executive Committee of the board through the Board Treasurer.

Section IV: 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.

Coordinate financial statement and federal financial assistance audits:

In January 2014, the board of trustees approved a revised Financial Audit Plan for the system. It included significant changes to financial statement audits within the system. Specifically, the revised plan recommended:

- Moving toward a goal to only complete an audit of the systemwide financial statements, revenue fund and federal student financial assistance (A-133).
- A transition period: complete stand-alone audits for fiscal years 2014 - 2016 of four universities (Bemidji State University, Metropolitan State University, St. Cloud State University, and Winona State University)
- Enhancing the supplement to the annual systemwide financial report with additional college/university level detailed schedules.

In April 2014, the board approved a recommendation to appoint the external audit firm of CliftonLarsonAllen as the system's external auditor. CliftonLarsonAllen is under contract for fiscal year 2015 to provide audit services for the system, including; systemwide financial statements, Revenue Fund financial statements, four state university financial statements, and federal student financial aid.

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. Known 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.
- Radio Stations: Grants from the Corporation for Public Broadcasting requires St. Cloud State University to obtain a financial statement audit of its radio station each year.
- Itasca Community College Student Housing Funds: an annual independent audit is required by trust agreements between US Bank, Itasca County Housing and Redevelopment Authority, and Itasca Community College Revenue Bonds Series 2013.

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 2015.

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. Two program evaluations were conducted in fiscal year 2014, it is unknown how many will occur in fiscal year 2015.

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 2015. These include:

Fill Vacant Audit Position - Internal audit resources were expanded by one position to increase the number of college and university financial internal control and compliance audits. The office is currently working with human resource staff on a classification for the new position, recruiting and filling the position.

Replacement of Office of Internal Auditing Administrative Systems – As time permits over the past couple of years, we have been determining needs for outdated administrative applications used for recording and managing staff time, audit findings, and fraud inquires and investigations. We have made some modifications but still remain on one outdated application. In addition, the office needs to assess whether other tools may increase efficiency and productivity.

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 2015. The budget differs from fiscal year 2014 due to the revised financial audit plan approved by the board in January 2014. The number of college and university financial statement audits was reduced and internal audit resources were increased in order to complete additional internal control and compliance audits.

Audit Budget Summary for Fiscal Year 2014 and 2015

	Approved Fiscal Year 2014	Proposed Fiscal Year 2015
Salaries & Benefits (1)	1,194,025	\$ 1,326,667
Other	91,525	\$ 107,937
Total	1,285,550	\$ 1,434,604

Contract – CPA (2)	578,684	\$ 367,540
Contract – Other (3)	\$100,000	\$ 100,000
Total	678,684	\$ 467,540

Total Audit Costs **1,964,234** **\$ 1,902,144**

- (1) The internal audit office manager provides assistance to the board office; salaries have not been adjusted for this assistance.
- (2) FY14 included financial statement audits for system-wide, revenue fund, ISEEK, 13 colleges and universities and A-133 audits. In FY15, a change was made to the number of college and university financial statement audits from 13 to 4. The cost of these audits is covered by individual colleges and universities and the Finance Division.
- (3) Budgeted amounts include contracting for IT as discussed earlier in the document.

Appendix A: Proposed FY2015 Audit Committee Schedule

Note: Internal Auditing plans to work with the Vice Chancellor of Information Technology and in consultation with General Counsel to have one or two sessions of the Audit Committee each year to discuss results of information technology security related audits and for the Vice Chancellor of IT to discuss IT security strategies. This is considered a best practice for boards. Meetings may be closed as provided under the Minnesota Government Data Practices Act.

October 2014	November 2014	January 2015	April 2015	May 2015	June 2015
<ul style="list-style-type: none"> • Review Annual Internal Auditing Report for fiscal year 2014 • Train Audit Committee members on responsibilities • Review results of Grant Management internal control and compliance audit • Proposed Amendment to Board Policy 1D.1, First Reading 	<ul style="list-style-type: none"> • Review and approve release of audited financial statements • Proposed Amendment to Board Policy 1D.1, Second Reading 	<ul style="list-style-type: none"> • Present recommendations on resources or methods for increasing internal control and audit coverage at colleges and universities • Review results of two internal control and compliance audits 	<ul style="list-style-type: none"> • Review results of financial aid audits • Review results of Clery Act audit. • Proposed Amendment to Board Policy 1C.2, First Reading 	<ul style="list-style-type: none"> • Review results of audit risk assessment • Review results of two internal control and compliance audits • Proposed Amendment to Board Policy 1C.2, Second Reading 	<ul style="list-style-type: none"> • Approve Annual Audit Plan for fiscal year 2016 • Review results of International and Study Abroad Programs audit