# BOARD OF TRUSTEES MINNESOTA STATE COLLEGES AND UNIVERSITIES

## BOARD INFORMATION

## REVIEW INTERNAL AUDITING ANNUAL REPORT

The annual report for fiscal year 2009 is attached.

## **Internal Auditing Annual Report Fiscal Year 2009**

Office of Internal Auditing

#### I. Assurance Services

The Office of Internal Auditing spent the majority of its time working on assurance services which, depending on the scope of the audit, may focus on the quality and reliability of information, legal and policy compliance, and operational efficiency and effectiveness. The

January 2010

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The Office of the Chancellor distributed copies of the final report to all presidents, Chief Finance Officers, and Chief Human Resources Officer. The Chancellor also emphasized to the presidents at the November 2009 Leadership Council meeting that it was essential for them to learn from the audit findings cited at other institutions. The Vice Chancellors for Finance and Human Resources planned to review the Section A findings with campus representatives at system-wide meetings held during the year.

The Audit Committee referred three findings to the Finance, Facilities & Technology Committee for further review and discussion:

Finding #1 cited poor controls over granting security clearances to the business applications run on the Integrated Statewide Records System (ISRS). Board Policy 5.23 governs the Security and Privacy of Information Resources.

Finding #3 cited deficiencies in recording equipment. Board Policy 7.3 and System Procedure 7.3.6 govern the accounting for capital assets, including equipment.

Finding #4 cited weaknesses with managing employee use of college-issued credit cards. Board Policy 7.3 and System Procedure 7.3.3 govern the use of credit cards.

The Audit Committee referred three findings to the Human Resources Committee for further review and discussion:

Finding #2 cited widespread problems with accounting for administrator and faculty leave. Labor agreements govern the eligibility for leave accruals; no board policies or system procedures address accounting for employee leave.

Findings #6 and #7 raised questions about early separation incentives paid to former faculty members. Board Policy 4.6 establishes limitations on the re-employment of employees who have received such payments. Recently Policy 4.11 was approved to offer a new program for early separation incentives, as authorized by the 2009 Legislature. The findings cited by the Legislative Auditor pertained to incentive programs authorized by the Minnesota State College Faculty bargaining agreement.

## Office of the Legislative Auditor - Program Evaluations

The Office of the Legislative Auditor (OLA)

The Executive Committee, in consultation with the Audit Committee, referred two recommendations to the Advancement Committee for further consideration:

The Board of Trustees should by policy require colleges to ensure that information on career exploration and job opportunities is getting to the occupational program students who need it.

Especially for occupations with mixed expectations for regional job opportunities, MnSCU colleges should make certain that pertinent students are informed of job prospects.

Evaluation of

## **II. Consulting Services**

Through the end of fiscal year 2009, the office supplemented its traditional audit skills with the services of an organizational improvement professional for consulting projects. Consulting engagements were accepted as long as no conflict was created with auditing responsibilities.

During fiscal year 2009, Internal Auditing provided the following consulting services at the request of presidents:

Administered employee climate surveys for two colleges and one state university.

Facilitated the design of an improved budget process for a college.

Facilitated a project to review and improve student services processes for a college.

Facilitated a project to review and improve business services processes for a college.

Assisted a division of the Office of the Chancellor in assessing its services.

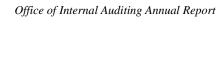
At the end of the fiscal year, the office eliminated its consulting services, due to budget difficulties. It has assisted, and will continue to assist, past clients with finding new providers for their consulting service needs.

#### II. Follow-up on Prior Audit Findings

The Chancellor and the Board of Trustees expect timely resolution of audit findings. Accordingly, Internal Auditing maintains a database to follow-up on audit findings and tracks their resolution. In about January of each year, Internal Auditing assesses the status of prior audit findings and submits a mid-year follow-up report to each president. In June, Internal Auditing prepares year-end follow-up reports and also submits copies to Chancellor McCormick for consideration during his annual performance evaluations of presidents and vice chancellors. In fiscal year 2009, Internal Auditing spent about 22% of its applied hours on following up on prior audit findings.

As a result, the timely resolution of audit findings is taken seriously. In fiscal year 2009, 78% of college and university audit findings were resolved. As of June 30, 2009, Internal Auditing was continuing to monitor 92 unresolved audit findings at the colleges and universities. Internal Auditing classified five of the unresolved findings as critical issues that warranted immediate attention. Some of the more significant unresolved audit findings included:

Fond du Lac Tribal & Community College had 13 unresolved audit findings. One finding was classified as critical



Periodic assessments of information technology risks should be communicated to the Audit Committee as part of the audit planning process.

Internal Auditing should evaluate the effectiveness and contribute to the improvement of risk management process.

To address the first observation, Internal Auditing plans to review Board Policy 1.D.1 before the end of the fiscal year and suggest any necessary changes to the Audit Committee. The other two observations should be considered as part of the fiscal year 2011 internal auditing plan.

### VI. Analysis of Staff Hours

For 2009, Internal Auditing had 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 multiple colleges or universities located in their regions.

The office had maintained the same size and structure since shortly after it was created in 1997. Due to budget challenges, though, the office reduced its staff complement by 1.5 positions at the end of fiscal year 2009. Staffing capacity to provide core assurance services were maintained, but consulting services were eliminated. Also, the budget reductions resulted in sharing an IT analyst position with the Information Technology Services division, thereby diminishing the office's capacity for data analysis.

Each year the Board of Trustees approves an audit plan for the ensuing fiscal year. In September 2008, the board approved the plan for fiscal year 2009. Table 1 shows how actual use of staff time compared to the audit plan for technical services.

Table 1: Percentage of Internal Auditing Technical Service Staff Hours July 1, 2008 to June 30, 2009

	Percentage of Staff Hours	
Activity	Audit Plan	Actual
Technical Services		
Assurance Services	64%	68%
Inquiry/Investigations Support	8%	9%
Consulting Services	12%	13%
Professional Advice	11%	6%
Planning & Development	5%	3%
Percentage of Total Applied Hours	100%	100%

