



**MINNESOTA STATE**  
Board of Trustees

**AGENDA ITEM SUMMARY**

**NAME:** Audit Committee

**DATE:** March 21, 2023

**TITLE:** Project Results: Financial Internal Control Assessments

Proposed New Policy or  
Amendment to Existing Policy

Approvals Required by  
Policy

Other Approvals

Monitoring/Compliance

Information

**PRESENTERS**

Amy Jorgenson, Chief Audit Officer  
Mathew Mikulay, Baker Tilly Senior Manager

**PURPOSE**

The purpose of this project was to facilitate a review of financial internal controls to gain an understanding of current procedures, internal controls, and potential risks and gaps. The objectives for this project were to:

- Review the current internal control practices and process documentation.
- Perform the controls risk assessment by reviewing the design of the internal controls over key financial risk areas.

**BACKGROUND INFORMATION**

In fiscal year 2020, internal audit developed a multi-year plan to review key financial controls at each college, university, and the system office on a rotational basis over a five-year period. The purpose is to facilitate financial internal control assessments at each institution to gain an understanding of current procedures, internal controls, and potential risks and gaps.

In fiscal year 2023, the third year of the plan, we completed internal control assessments at four colleges. A summary of results will be discussed with the committee.

The project scope included a review of internal controls for select business cycles such as cashiering, accounts payable, purchasing cards, tuition billing, budgeting, and banking at the following institutions:

- Century College
- Hennepin Technical College
- Minneapolis College
- Normandale Community College

# Project Results: Financial Internal Control Assessments (FY23/Year 3)

## Purpose and Objectives

The purpose of the year 3 financial controls review was to facilitate financial control assessments at select institutions to gain an understanding of current procedures, internal controls, and potential risks and gaps.

The objectives of this project were to:

- Review the current internal control practices and process documentation.
- Perform the controls risk assessment by reviewing the design of internal controls over key financial risk areas.

## Fiscal Year 2023 Institutions



Century College



Hennepin Technical College



Minneapolis College



Normandale Community College

## In-Scope Business Cycles

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Business Office Cashiering

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Non-Business Office Cashiering

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Banking and Account Reconciliations

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Accounts Payable

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Purchasing Cards

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Inventory

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Tuition and Student Billing

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Budgeting

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System Security Access

## Activities Completed

- **Interviews** – Conducted interviews with Business Office staff and key stakeholders at each respective institution for each in-scope business cycle.
- **Documentation review** – Reviewed relevant policy, procedure, and controls documentation at each respective institution to further develop an understanding of existing processes, controls, and related risks.
- **Results review** – Reviewed and discussed results of the respective financial controls assessment for each institution with business office staff and key stakeholders, including any recommendations and opportunities for improvement to enhance the internal controls environment.





## Summary of Year 3 Results

Overall, adequate financial controls appear to exist in the in-scope business cycles, and appropriate processes appear to be in place in alignment with established Board policies and procedures.

Identified internal control gaps and provided recommendations to address the gaps. None of the internal control gaps identified are considered significant.

Identified certain instances where internal controls and related procedures can be further enhanced to reduce the risks relative to the specific business cycles for each individual institution.

## Strengths

<p>Strong review and approval controls are in place for administering purchasing cards and approving expenses. Robust policies and procedures exist.</p> <p><b>Purchasing Cards</b></p> 	<p>Key account reconciliations are reviewed on a monthly basis. Quarterly certifications are completed in accordance with established policies and procedures.</p> <p><b>Reconciliations &amp; Banking</b></p> 	<p>Robust review procedures are in place for the annual tuition and fee rate update process.</p> <p><b>Tuition &amp; Fee Rates</b></p> 	<p>Strong controls exist within Marketplace for contracts and purchase requisitions.</p> <p><b>Accounts Payable</b></p> 
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## Control Improvement Opportunities

<p><b>System Security</b></p> <ul style="list-style-type: none"> <li>Develop a formal timeline expectation for removal of employee access from ISRS and consider embedding this timeline within an offboarding checklist to ensure that ISRS access is removed timely.</li> <li>Conduct a periodic review of users with access to the US Bank expense management system, to ensure individuals with access still have an appropriate business need.</li> </ul>	<p><b>Business Office Cashiering</b></p> <ul style="list-style-type: none"> <li>Review all risky transactions completed in ISRS by all cashiers in a timely manner (at least monthly) to ensure the timely identification of unauthorized or inaccurately recorded transactions.</li> </ul>	<p><b>Tuition and Billing</b></p> <ul style="list-style-type: none"> <li>Develop internal policies at the respective institutions to address discretionary fees in alignment with established system procedure 5.11.1.</li> </ul>
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## Control Gaps

### ISRS/Marketplace

- **Gap:** There are certain incompatible roles for ISRS and Marketplace users that do not have a documented mitigating or compensating control within the system, subjecting the institution to fraud risk.

### Physical Inventory Ownership

- **Gap:** Individuals responsible for the ownership of assets and equipment are performing the physical inventory counts, resulting in inadequate segregation of duties.

### Physical Inventory Count

- **Gap:** An annual physical inventory count process is not completed in compliance with system procedure.

### Third-Party Award Fee Adjustments

- **Gap:** There is no independent, secondary review of the third-party awards entered in the system, which may increase the risk of inaccurate or inappropriate entries.

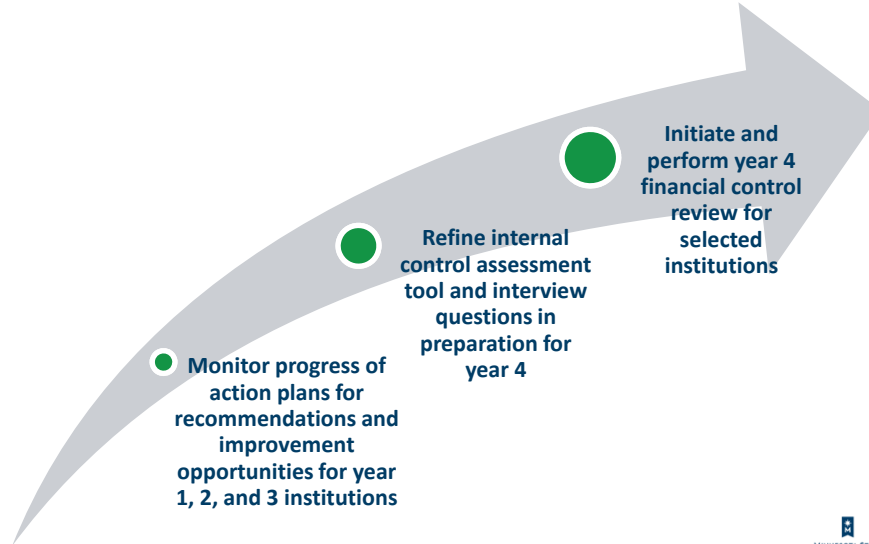
## Ongoing Monitoring

The Office of Internal Auditing performs ongoing monitoring of control gaps.

- Year 1: 5 institutions and the system office
- Year 2: 7 institutions
- Year 3: 4 institutions

	Control Gaps		
	Open	Closed	Total
Year 1	3	-	3
Year 2	2	5	7
Year 3	7	-	7

## Next Steps – Financial Controls Reviews



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