

## Audit Division

The MIT Audit Division delivers audit services through a risk-based program of audit coverage, including process audits, targeted reviews, and advisory services. These efforts, in coordination with the Institute's external auditors, PricewaterhouseCoopers, provide assurance to management and the Audit Committee that good business practices are adhered to, adequate internal controls are maintained, and assets are properly safeguarded.

The Audit Division's scope of services is equal to the full extent of MIT's auditable activities. Audit resources are prioritized and allocated using a model of risk evaluation for defined entities at the Institute.

The Audit Division is attentive to the support and service of its primary customer, the Audit Committee of the Corporation. In accordance with its charter, the MIT Audit Committee meets three times per year. This meeting schedule lends momentum to the Audit Division's goals for monitoring internal controls and supporting the Institute's risk management processes. The Audit Committee continues to enhance its operations to include offline review with management of mission-critical activities, such as the Research Administration Improvement Initiative and the SAP Payroll implementation. This process is supported with the assistance of the Institute auditor.

The Audit Division was fully resourced throughout the year, employing 16 professional staff (14.9 full-time equivalents), including the Institute auditor. Core resources are organized into two distinct functions: Audit Operations and the Research Administration Compliance Program (RACP).

Audit Operations, comprising 10 professional staff (9.6 full-time equivalents), carries out a priority-based program of audits and reviews to evaluate the effectiveness of management's systems of controls (including information technology controls) over financial, operational, and compliance risks within the Institute's activities. Approximately 16,900 person hours are devoted to the activities of Audit Operations on an annual basis. This group is directed by the associate audit director, Audit Operations.

RACP provides ongoing research administration compliance monitoring by four staff members (3.5 full-time equivalents) dedicated to research compliance and reporting to the associate audit director, Operational and Compliance Risk Management. The key elements of RACP's efforts are: conducting site visits, with the goal of completing these for the 30 highest dollar research volume departments, labs, and centers (DLCs) over a two-year cycle; and ongoing monitoring for compliance indicators. Through delivery of these advisory services, RACP reaches out to the Institute's numerous and varied DLCs, developing relationships that extend from the schools' assistant deans out through the DLC administrative and support staff.

Significant accomplishments of Audit Operations and RACP are described below.

The division also houses a specialized function, Professional Standards and Strategy (0.8 full-time equivalents), led by an experienced member of the division with the title assistant audit director. Working with the Institute auditor and the audit management team, this function guides the division in setting policy and direction to help us achieve our long-term goal of becoming MIT's world-class audit function.

### **Audit Operations**

Audit Operations's primary objective is to perform reviews and evaluations of the Institute's business processes and provide management with assurance that controls are functioning as intended. We strive to perform this work in accordance with *The International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors (IIA), which requires that we maintain independence when conducting our reviews throughout the Institute. For that reason, the Audit Division has an independent reporting line to the Audit Committee and neither assumes an operational role nor undertakes responsibility for designing or implementing controls.

Audit Operations substantially completed its 2006 Audit Plan as of June 30, 2006. This 18-month plan was a transitional vehicle to align the audit plan year (formerly on a calendar year schedule) with the fiscal year. The 2006 Audit Plan comprised 37 internal audit engagements of various Institute business processes. Among these engagements were continuation of multiyear efforts designed to support management's implementation of the SAP Payroll system, as well as the Environmental Protection Agency and Department of Justice joint consent decree requirement for a third-party system review of the Environmental Health and Safety Management System. These management initiatives are now successfully completed. Audit Plan time is also devoted to ongoing review for capital construction cost recovery opportunities: this program, employed to identify excessive and unallowable costs, continues to yield benefits well in excess of the resources and related costs.

### **Research Compliance Administration Program**

The Audit Division's Research Administration Compliance Program (RACP) consists of a site visit function and a monitoring program. In addition, these resources have fulfilled special requests of management and the Audit Committee for advisory services in research administration topical areas.

### **Site Visits**

RACP completed 18 site visits during its 2006 pilot phase. Site visits are designed to identify existing or developing compliance problems and to recommend solutions on the spot ("find and fix"). These inquiry-based audit techniques are supplemented with focused audit testing in key areas. RACP has developed a suite of electronic tools designed to target areas for discussion during a site visit; as noted below, these tools have become increasingly popular and represent a step toward DLC self-monitoring for compliance. In addition to fulfilling audit objectives, site visits are excellent opportunities to build and maintain constructive working relationships with DLC administrative staff.

## Ongoing Monitoring Program

Ongoing monitoring activities at both the Institute and department level include:

- Semiannual inspections—a particular compliance area will be selected semiannually for testing Institute-wide; the first round of these inspections is under way.
- Quarterly DLC self-monitoring reports—as noted above, DLCs are provided compliance indicator reports on a quarterly basis, upon request. Nearly all DLCs visited are requesting these reports.
- Executive information system dashboard—user-friendly dashboard system allows DLCs to self-monitor activities within their departments. This system is currently in pilot mode. Each pilot participant has received an individual demonstration and will provide feedback to RACP.

## Other Special Requests

RACP performed review and analysis of the effectiveness of the Institute's compliance management systems in selected areas, in collaboration with the offices of the vice president for research and associate provost, the director of sponsored programs, and the assistant deans.

## Personnel Updates

### New Titles Conferred on Audit Management

As of July 1, 2005, three individuals previously holding the title of audit manager were given director titles in recognition of their highly effective and sustained level of service to the Audit Division. Michael C. Bowers, who directs Audit Operations, and Timothy J. Gordon, who directs RACP, now hold the title of associate audit director. Martha Jane Gagnon, professional standards and strategy specialist, holds the title of assistant audit director.

### Professional Certifications

Paul Champommier, senior information technology auditor, completed the requirements to become a certified internal auditor as well as a certified information systems auditor. With these two additional certifications, the total number of certifications held by members of the Audit Division is 11.

### Professional Development

We emphasize professional development for all our staff. Members of the audit staff find opportunities for training in their discipline, and they affiliate with industry peers through conferences, seminars, and group meetings. In 2006, peer group affiliation was an important theme. The Institute auditor is a member of the "Little 10+" association of Ivy League and other peer institutions, which meets semiannually. The third annual meeting of the manager-level group representing the same "Little 10+" institutions took place in October 2005, paving the way for future intercollegiate collaboration among

audit groups. In addition, information technology staff representing the same group of institutions convened during the year. Each of these meetings provided a forum for exchanging ideas and sharing approaches to common problems.

### **Presentations at Industry Conferences**

Members of the Audit Division's RACP presented at two conferences held by the National Council for University Research Administrators. Topics covered included an overview of the compliance guidance for research institutions proposed by the Health and Human Services Commission's Office of the Inspector General, and recent federal audit findings at institutions of higher education.

### **Administrative Initiatives**

#### **Implementation of New Audit Management System**

Following extensive research, the Audit Division purchased and implemented a new audit work system produced by the UK company Pentana. The entire Audit staff participated in user training. The Pentana Audit Work System (PAWS) offers software to manage varied aspects of corporate governance on one database. Its full integration encompasses risk rating and subsequent identification of business processes and units for review at a universe level; data capture and reporting of business objectives, risks, and controls; work paper generation and archiving; report writing; and issue tracking. PAWS will improve and increase the division's ability to report meaningful information to the Audit Committee and senior Institute management. It will also support the newly revised audit work paper methodology designed from the perspective of the current worldwide standard for internal control set by the Committee on Sponsoring Organizations of the Treadway Commission.

#### **Office Relocation**

Plans were approved to move the entire Audit Division to available office space in Building NE49 (600 Technology Square) in FY2007. With this move, the Audit Division will gain a unified office area with designated team spaces and the possibility of expanding shared services with the Controller's Office.

#### **Quality Assurance Review**

The division continues to plan for the conduct of a quality assurance review in the upcoming year. It will likely be performed by self-assessment with independent validation by qualified reviewers within the industry (managed in-house). The review will provide an assessment of the efficiency and effectiveness of internal audit services, identification of opportunities for performance improvement and increased value, and an opinion on the Audit Division's conformance to the spirit and intent of *The International Standards for the Professional Practice of Internal Auditing*.

## Goals and Objectives

The Audit Division has set forth the following goals for 2007:

- Provide effective audit coverage of the Institute's activities to provide management with assurance that controls designed to achieve important objectives are adequate. Prioritize activities and areas representing material expenditures or investments, as well as those that have not received prior or recent audit coverage. Strive for a broad span of audit services, to build a greater understanding of the Institute's extraordinary diversity of activities.
- Become effective evaluators of controls as they help to mitigate risks or enhance the achievement of business objectives.
- Fulfill the objectives for the RACP by achieving a full cycle of coverage and incorporating compliance testing of the terms of industrial awards as well as international awards and agreements.
- Seek and build upon opportunities to develop and strengthen relationships throughout the Institute's business areas, including academic administration. Use these opportunities to become more knowledgeable of emerging initiatives, to enhance the division's image, and to provide support for Institute initiatives.
- Collaborate with the heads of key central and academic business functions to prioritize the use of resources.
- Continue to work toward adherence to the division's operational standards as these standards are designed to promote a world-class audit function.
- Maintain current levels of employee development activities. Encourage the pursuit of relevant certifications and of cost-effective training opportunities, including those offered in-house.
- Increase management's accountability for effective and efficient systems of control through thoughtful analysis, clarity of audit reporting, and follow-up on matters of importance.

These goals were presented to the Audit Committee and senior administration in June 2006.

**Deborah L. Fisher**  
**Institute Auditor**

*More information about the MIT Audit Division can be found at <http://web.mit.edu/audio/www/>.*