

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 to the Audit Committee of the MIT Corporation that good business practices are adhered to, adequate internal controls are maintained, and assets are properly safeguarded.

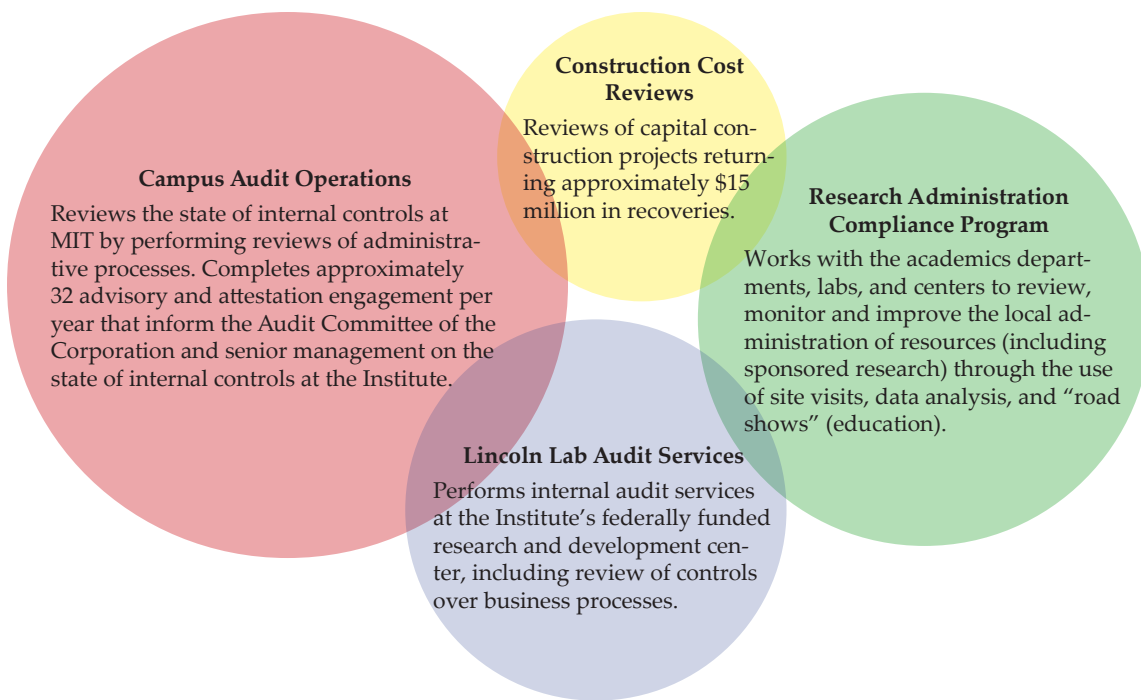
The Audit Division's scope of services is equal to the full extent of MIT's auditable activities. Audit resources are prioritized and allocated using a model of risk evaluation for defined entities at the Institute.

Members of the Audit Division highly value their role within the Institute. When they are asked to describe what it means to be a member of the MIT Audit Division, the words "opportunity" and "challenge" are frequently mentioned. The challenges include applying conventional audit skills and techniques in an unconventional environment, mastering knowledge of diverse business topics and related control structures, and living up to the expectations of peers and community members of being a world-class resource and agent for innovative change. Challenges create opportunities as well. Members of the Audit Division fully appreciate the breadth of activities to which they are exposed through their work and the tremendous visibility into an exceptional institution afforded by their role. They are able to make valued contributions through collaborative work and feel respected on many levels. In short, there may be no better audit assignment.

The Audit Division is fully attentive to the support and service of its primary customer, the Audit Committee of the Corporation. In accordance with its charter, the Audit Committee meets three times a year. This schedule lends momentum to the Audit Division's goals for monitoring internal controls and supporting the Institute's risk management processes.

Fully staffed, the Audit Division employs 16 professional staff (14.8 full-time equivalents), including the Institute auditor. Staff levels are unchanged since 2009, when one position was eliminated to meet budgetary goals during a period of fiscal constraints. Additional steps taken to provide budgetary relief include insourcing from PricewaterhouseCoopers of audit testing supporting the financial statement audit in exchange for reduced audit fees, rebalancing resources to accommodate Lincoln Laboratory audit objectives, and establishing an internal desktop support model.

Core resources are organized into three distinct functions: Campus Audit Operations, the Lincoln Audit Service Team, and the Research Administration Compliance Program (RACP), each managed by an associate director. Resources are allocated and shifted between these functions to meet current needs. The associate audit director for risk and compliance returned to military service during part of the year; accordingly, his duties were assumed by the associate director for business and technology audit services.



Campus Audit Operations carries out a priority-based program of audits and reviews to evaluate the effectiveness of management’s systems of controls over financial, operational, and compliance risks within the Institute’s activities, including information technology controls and controls over capital construction spending. This group is directed by the associate director for business and technology audit services.

The Lincoln Audit Service Team also conducts a priority-based internal audit program that focuses on the business processes and controls implemented at MIT Lincoln Laboratory. Audit services provided for this specialized area mimic those of the Institute’s main campus in terms of evaluation of the effectiveness of controls implemented by Lincoln management over financial, operational, and compliance risks. This group is directed by an associate audit director.

RACP provides ongoing research administration compliance monitoring and reports to the associate audit director for operational and compliance risk management. RACP’s efforts involve three key elements: department-level site visits designed to assess internal controls within the departments, laboratories, and centers (DLCs) and provide research compliance support to DLC staff; ongoing compliance monitoring, which includes DLC-level monitoring and Institute-wide reviews; and road shows that communicate hot topics in research administration and solicit feedback relative to compliance challenges encountered at the DLC level. Through delivery of these advisory services, RACP represents an outreach effort to the Institute’s numerous and varied DLCs. The relationships developed extend from the schools’ assistant deans out through the DLC administrative and support staff.

The Audit Division also houses a specialized function called Professional Standards and Strategy, led by an experienced member of the division with the title of associate 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 assuring that MIT's audit function supports the Institute's research and educational mission with world-class resources and tools.

Accomplishments and Highlights

The Audit Division is proud of another year of adding value through execution of the audit plan, partnering with business management to understand and enhance control structures, and working in support of the Audit Committee of the MIT Corporation. We sought alignment with key initiatives, such as Digital MIT, to give context to our audit engagement planning and execution. Great teamwork within the division led to the many accomplishments of the year, highlighted below.

Campus Audit Operations

The primary objective of Campus Audit Operations is to perform reviews and evaluations of the Institute's business processes and provide management with assurance that controls are functioning as intended. Accordingly, 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. These standards require that we maintain independence when conducting our reviews throughout the Institute. This is achieved through an independent reporting line to the Audit Committee of the MIT Corporation, as well as by not assuming operational roles or undertaking responsibility for designing or implementing controls.

Campus Audit Operations substantially completed its fiscal 2011 audit plan as of June 30, 2011. The 2011 audit plan comprised 26 targeted reviews of various Institute business processes and 27 advisory engagements (including capital construction cost reviews). Engagements of each type can range from a single encounter with an audit client to assist with problem solving to full-scope audits consuming 500 hours of direct audit time. Throughout the plan year, we adjust our portfolio of engagements to address the current environment and shifting risk priorities of the Institute. Campus Audit Operations engagements (excluding our work at Lincoln Laboratory) completed within the 2011 audit plan included the following:

- *Process reviews:* Reviews of the Institute's student health plan administration, insurance program/risk management function, sub-award handling and oversight, tuition assessment controls, and financial controls in the *Technology Review* and the Alumni Association. Also, a review of the Institute's new electronic travel process.
- *Targeted reviews:* A specific review of the Kuwait-MIT Center, requested by management, led to a broader investigation into questionable transactions (expenditures) by one individual; the matter was resolved satisfactorily by management. Other targeted reviews included training grant compliance, an analysis of Undergraduate Research Opportunities Program FICA tax requirements, and enterprise server configuration management.
- *Advisory reviews:* Our focus in 2011 included cost reviews for the various capital construction projects, testing in support of the financial statement audit, a

review of the new pension plan accounting system, an assessment of a proposed “mobility pass” (Massachusetts Bay Transportation Authority universal card) program, and reviews in several other areas.

Lincoln Laboratory Audit

FY2011 was the third year of an established audit function for Lincoln Lab. The associate audit director with oversight responsibility for this program developed a proposed multiyear audit plan for the lab and identified resources within the Campus Audit Operations group to help execute audit objectives. In addition, relationship building with senior lab administration continued. We are gratified by the responsiveness to, and interest in, our activities on the part of the lab’s administration, and we find the partnership a model for effectiveness.

During the year, two separate engagements were conducted to ascertain the lab’s compliance with its newly established process to obtain financial disclosures from employees and contractors (for the years 2009 and 2010) and to assess the effectiveness of controls within the process in place. Audit management also collaborated with lab management to effect the implementation of an anonymous reporting hotline at the lab, which is now live.

As 2011 comes to a close, the Audit Division is poised to launch a business process review of controls over the lab’s procurement process to ensure that their design and implementation fosters the achievement of Lincoln Laboratory’s business objectives while assuring compliance with Lincoln Laboratory and federal policies.

Research Administration Compliance Program

The RACP site visit program completed 11 visits during FY2011, concentrating this work on the School of Science and the School of Humanities, Arts, and Social Sciences. This program continues to provide on-site assistance to the Institute’s DLCs relative to current compliance issues. Observations made and data collected through the program are provided to assistant deans and others to impart useful information on common trends, issues, and practices within the DLCs and to influence pathways to improved compliance in areas where desired targets are not being met. Overall, the program has accomplished its primary goals of achieving brisk coverage of DLC compliance and providing support for DLC control structures.

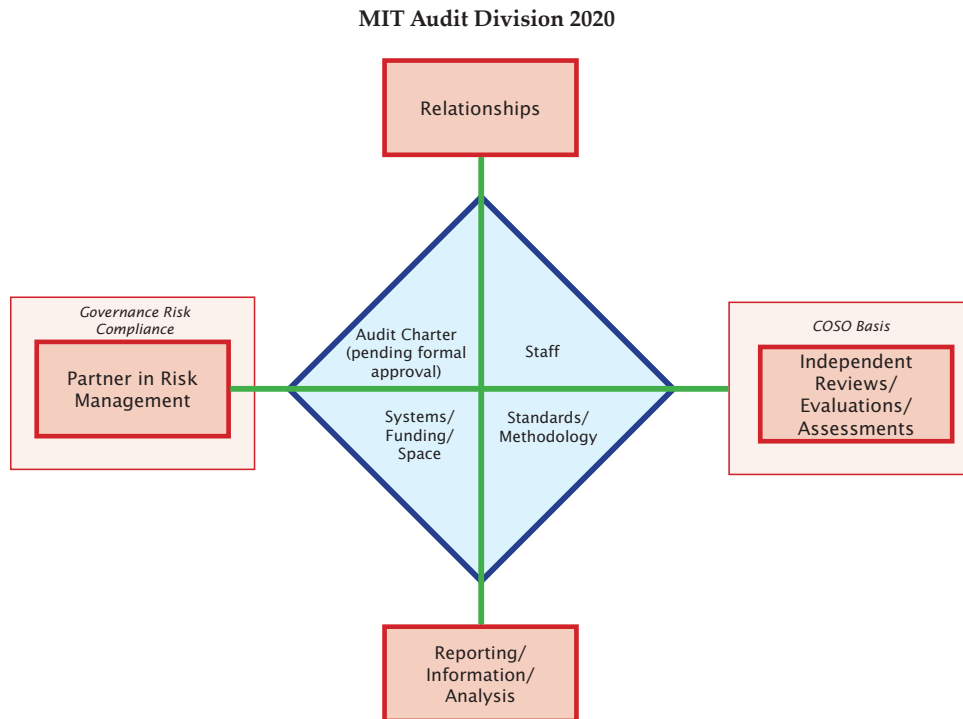
Professional Development

Promotion

In December 2010, we announced the promotion of Antwon Ward to senior auditor. This step recognized Antwon’s growth in his role of an audit professional, as well as his provision of top-notch support for the division’s technology strategy and the audit staff’s use and application of electronic tools.

Training

We emphasize professional development by all of our staff. Members of the audit staff find opportunities for training in their discipline and affiliate with industry peers through conferences, seminars, and group meetings. Peer group affiliation was an important theme in 2011. The Institute auditor is a member of the “Little 10+” association of Ivy League and other peer institutions, which meets semiannually. The eighth annual meeting of the manager-level group representing the same Little 10+ institutions took place in October 2010, paving the way for future intercollegiate collaboration among audit groups. In addition, information technology (IT) staff representing the same group of institutions convened this year. A user group for the Audit Division’s administrative software (Pentana Audit Work System) met late in 2010; the group, comprising five universities on the East Coast, has been meeting for three years and convenes annually. These meetings provide a forum for exchanging ideas, determining approaches to common problem areas, and envisioning the future with respect to system governance, risk, and compliance applications.



Audit management continues to cultivate progressive development toward the comprehensive integration of people, technology, contemporary governance theory, and technique. The MIT Audit Division 2020 schema reflects audit’s resources deployed in service to the Institute; the use of all available resources is continuously reassessed to assure maximum productivity in the most appropriate areas.

Presentations at Industry Conferences and Other Venues

Members of the MIT Audit Division are frequent contributors to industry conferences. In July 2010, Timothy Gordon and Kallie Firestone presented at the regional meeting of the National Council of University Research Administrators (NCURA) on “Department Level Compliance Issues,” and Michael Bowers and a colleague from Harvard University presented on “Leveraging Internal Audit.” In August, Deborah Fisher participated as part of the industry leader forum at the MIS Audit Leadership Institute held annually in Boston. Michael Bowers and Elvie Mahoney presented at the annual conference of the Association of College and University Auditors (ACUA) in September on “MIT Internal Audit’s Role in Promoting and Evaluating Institutional Compliance.”

In November, Kallie Firestone hosted a half-day workshop titled “Audits and Site Visits” and presented on “Preparing for Audits” at the NCURA annual meeting. Also that month, Michelle Jackson hosted a session at a meeting of the New England Audit Command Language Users Group titled “Use of Data Analytics.”

In April 2011, Michael Bowers presented with industry colleagues at the ACUA midyear conference on “Auditing for Compliance—Tools and Techniques for University Auditors.” In June, Ashish Jain delivered a presentation called “Data Analysis for Success” at the Little 10+ IT peer group meeting.

Related Initiatives and Administrative Matters

MIT’s 150th Anniversary Celebration

The Audit Division worked in collaboration with a team from the vice president for finance group to host a venue at the spring open house in celebration of MIT’s 150th anniversary. The group put forth a lively and informative display, “Painting the Finances at MIT,” comprising decades of archived and original material demonstrating how MIT has evolved to a level of sophistication worthy of the Institute’s rich and storied legacy.

Code of Business Conduct and Institutional Hotline

Amendments to the US General Services Administration’s Federal Acquisition Regulation (FAR) include a requirement for a code of business conduct and ethics to be provided to staff involved in research contracts in excess of \$5 million. To address this requirement, a collaborative working group comprising representatives of the offices of the General Counsel, Vice President for Finance, and Sponsored Programs; the Department of Human Resources; and the Audit Division proposed the adoption of a [statement](#) of responsible and ethical conduct at MIT to the Academic Council in February.

Additionally, prompted by the same FAR amendment, the Institute auditor, in collaboration with the above offices and, notably, the Institute’s Ombuds Office, launched an initiative to implement an institutional hotline and related awareness program. MIT engaged a vendor, Ethicspoint, to provide web-based and call-in reporting channels and related notification and recordkeeping services. The hotline is now operational, and a communication plan is underway.

Involvement in Institute Committees and Collaborations

The effectiveness of an audit function is greatly enhanced through trusting relationships with administrators of all levels and access to decision-making venues where information and opinions are openly shared. Such opportunities have been abundant in the past year. The Institute auditor and other audit team members contributed and/or were appointed to several standing committees: the Research Administration Coordinating Committee, the Administrative Systems and Policies Coordinating Council, the Budget and Finance Steering Group, the Administrators' Advisory Committee II, and the Parking and Transportation Committee (a presidential committee). Audit directors and managers are consulted frequently on control best practices in processes that are under study for streamlining or improvement (for example, travel modernization, electronic requests for payment, certification of effort). Notably, the Institute auditor and two associate directors are part of a team effort to implement metrics for the ongoing measurement and monitoring of the quality of research administration to support a commitment by the vice president for research to the Institute's Sponsored Research Visiting Committee, which reported in November 2009. The MIT Audit Division has found a meaningful place at the table.

Current Goals and Objectives

As the Institute takes on new challenges, the Audit Division's goals are to participate effectively in the evolution of the following areas:

Audit Committee support and enhancement of operations

- Continue to foster a smooth transition in Audit Committee chairmanship and membership
- Focus the committee on areas of risk, with appropriate attention to responsibilities
- Develop tools and a format for Audit Committee education (carried forward from 2010 goals)
- With senior administration, PricewaterhouseCoopers, and the Audit Committee chair, benchmark committee practices to accepted best practices for future consideration

Audit Division service improvement and ongoing quality

- Undertake a self-assessment against Institute of Internal Auditors standards in preparation for an independent validation (quality assurance review)
- Review and update division mission and vision statements, ensuring incorporation of current departmental strategies and objectives
- Incorporate consideration of MIT's global engagement into audit planning and execution and help ensure that the Audit Committee's inquiries of the MIT administration are fully considered and addressed
- Establish an executive-level reporting protocol to include dashboard development and delivery

- Through increasing use of automation, explore and apply continuous monitoring/continuous auditing techniques to achieve audit efficiencies and develop stronger control structures, as well as support the production of information on research administration metrics
- Operate the institutional hotline and ensure that the operating model makes sense for MIT
- Continue staff development, an ongoing responsibility

Enterprise risk management and compliance programs

- Engage management in conversations about risk management program strategies and develop plans (e.g., pilot studies, tabletop discussions, forums) accordingly to advance the discussions, partner with MIT's Risk Management Office, and leverage existing models
- With a full understanding of existing compliance initiatives at MIT, analyze gaps (using federal sentencing guidelines as a standard) and develop remedial and longer-term actions

These goals are owned principally by the management of the division and are articulated to staff members at division staff meetings, at periodic retreats, and in the conduct of daily work. The goals are also discussed with senior administration and the Audit Committee.

Deborah L. Fisher
Institute Auditor