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 initiatives, in coordination with the Institute's external auditors, PricewaterhouseCoopers, provide assurance to management and to the Risk and Audit Committee of the MIT Corporation that adequate internal controls are maintained and assets are properly safeguarded. The division's efforts promote good business practices and enhance the Institute's evolving governance structure.

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

The Audit Division is fully attentive to the support and service of its primary customer, the Risk and Audit Committee. In accordance with its charter, based on the Institute's bylaws amended in December 2012, the Risk and Audit Committee meets four times per year. This schedule lends momentum to the Audit Division's goals for assessing and monitoring internal controls and supporting the Institute's risk management processes.

Fully staffed, the Audit Division employs 16 professional staff members (14.8 full-time equivalents), including the Institute auditor. Staff levels have been unchanged since 2009, when one position was eliminated to meet budgetary goals during a period of fiscal constraint. Core resources are organized into three distinct functions: Campus Audit Services, Lincoln Laboratory Audit Services, and the Research Administration Compliance Program (RACP), managed by the associate directors. Resources are allocated and shifted among these functions to meet current needs. The Audit Division also has primary responsibility in administering and managing the Institute's anonymous and confidential reporting system.

Campus Audit Services 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.

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

Research Administration Compliance Program provides ongoing research administration compliance monitoring; it reports to the associate audit director for business and technology audit services since the departure of the associate audit director for risk and compliance midyear for an employment opportunity in public

service. RACP's advisory efforts involve three key elements: department-level site visits designed to assess internal controls within the departments, laboratories, and centers (DLCs) and to 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 services, RACP represents an outreach effort to the Institute's numerous and varied DLCs. The relationships developed extend from the assistant deans of the Schools through the administrative and support staff of the DLCs.

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 Division management team, this function guides policy setting and direction to promote achievement of the long-term goal of ensuring 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 Risk and Audit Committee. The division sought alignment with key initiatives, such as information technology security and research administration, to give context to its audit engagement planning and execution. Excellent teamwork within the division led to the many accomplishments of the year, highlighted below.

Campus Audit Services

The primary objective of Campus Audit Services is to perform reviews and evaluations of the Institute's business processes and to provide management with assurance that controls are functioning as intended. Accordingly, the Audit Division strives 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 independence be maintained when conducting reviews throughout the Institute. This is achieved through an independent reporting line to the Risk and Audit Committee, as well as by not assuming operational roles or undertaking responsibility for designing or implementing controls.

Campus Audit Services substantially completed its FY2013 audit plan as of June 30, 2013. The FY2013 audit plan comprised 28 assurance reviews of various Institute business processes and 31 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 evaluating primary business processes or systems. Throughout the plan year, the portfolio of engagements is adjusted to address the current environment and shifting risk priorities of the Institute. Campus Audit Operations engagements (excluding work at Lincoln Laboratory) completed within the FY2013 audit plan follow.

- *Process reviews:* Reviews were performed of wire transfers at the MIT Investment Management Company, the Faculty Housing Assistance Program, the Barton procurement system and related assets management, controls over the DLC allocation account, renovations by the Committee for the Review of Space Planning, the procurement card program, property management and equipment administration, and the general Institute budget process.

- *Targeted reviews:* A specific department review was requested by the Office of the Dean for Student Life to evaluate departmental administrative controls. A second review was requested for the MIT-Portugal Program's compliance with its master agreement. Other targeted reviews included payment card industry compliance, authorizations within the MIT Student Information System, salary review, and the charging of a Department of Mathematics salary to the Defense Advanced Research Projects Agency.

- *Advisory reviews.* The focus in FY2013 included cost reviews for the various capital construction projects, testing in support of the financial statement audit, and reviews in several other areas, including direct charging of administrative costs, inspection and inventory in collaboration with environmental health and safety, GAMBIT final year audit support, and segregation of duties project work in support of efforts by the vice president for finance to address the respective management letter comment.

Lincoln Laboratory Audit Services

FY2013 was the fifth year of an established internal audit function at Lincoln Laboratory. The associate audit director with oversight responsibility for this program developed a proposed multiyear audit plan for the Laboratory and identified resources within the Campus Audit Services group to execute audit objectives. In addition, relationship building with senior Laboratory administration continued. Responsiveness to, and interest in, audit activities on the part of the Laboratory's administration is gratifying, and the partnership is a model for effectiveness.

In particular, the Audit Division launched a pilot initiative within Lincoln Laboratory service departments to conduct a comprehensive controls assessment, thereby synthesizing data elements within the risk environment to establish a risk and controls management database. During the year, the division completed a business process review of controls over labor distribution, and was asked by management to evaluate controls and related segregation of duties over SAP roles and authorizations in the Financial Services Department.

Research Administration Compliance Program

The Research Administration Compliance Program completed 20 site visits during FY2013, concentrating this work on the School of Science, the School of Engineering, and the Office of the Vice President for Research DLCs. 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 reasonable coverage of DLC compliance and providing support for DLC control structures. Additionally, four roadshows were held this year, highlighting research administration key topics and engaging DLC personnel in related conversation.

Anonymous and Confidential Reporting System

The Audit Division continues to administer the Anonymous and Confidential Reporting System, a hotline in support of the Institute's commitment to responsible and ethical conduct. Incoming reports are relayed to appropriate management by business process or area for address and resolution. The division ensures disposition accordingly.

Professional Development

Staff Transitions

In summer 2012, two new staff members with strong data analytic and information technology skills joined the division, one replacing a senior internal auditor who left MIT in the spring, and the other anticipating the retirement of a second senior internal auditor midyear. Kelly McVey, a certified information systems auditor (CISA) with an operational and information technology audit background, has concentrated on supporting RACP and campus operational audit programs. She has also joined Lincoln Laboratory Audit Services and has been instrumental in evaluating SAP roles and authorizations. Jessica Luebbert, also a CISA, focused on supporting RACP and continuous monitoring through May, when she decided to return to her former employer, KPMG. Audit Division management has begun a search to fill the open position.

As mentioned above, three individuals left the Audit Division over the course of the year. January brought the retirement of senior staff auditor Glenn Date, who had just under a dozen years of service to the Institute and the division. Also in January, Timothy Gordon left his position as associate audit director for compliance and risk management to pursue a career in public service. In discussion with senior management, it was determined that this associate audit director position would not be filled in favor of reserving and transferring budget resources for an anticipated staffing need outside the Audit Division focused on risk management. Last is the departure of senior staff auditor Jessica Luebbert to return to her former employer.

At the close of the year, Audit Division management was in discussion about creating a new position within the division, assistant manager for audit quality, to further support operational standards, programming, and strategic direction. The position was posted internally as an opportunity for promotion. A senior staff auditor expressed interest, and was promoted effective the first of the new fiscal year. Audit Division management has begun a search to fill this second open position, vacated by the promoted senior staff member.

In May 2013, the Institute auditor, Deborah Fisher, announced that she would be leaving her post to open a new office for risk management at MIT, reporting to the vice president

and general counsel, effective the first of the new fiscal year. Audit Division management was focused transitionally in June to assure continued audit service of the same high quality as a search is begun for the next Institute auditor.

Training, Certifications, and Peer Interaction

The Audit Division emphasizes professional development for all its staff members, who find opportunities for training in their discipline and for affiliating with industry peers through conferences, seminars, and group meetings. Most Audit Division staff members maintain professional certifications that are accompanied by continuing professional education requirements, which the division supports. Additionally, performance of certain financial statement audit testing on behalf of the Institute's external public accounting firm requires an annual minimum number of hours of industry-specific training.

Professional certification for staff members is held out as a goal. Once earned, professional certifications must be maintained through a personal program for professional development. The Audit Division staff currently holds 15 certifications in aggregate.

This year, a senior staff auditor, Eileen Shea, completed the second of two years of participation in the Association of College and University Auditors (ACUA) Leads, Cohort I (a cohort-based multi-month leadership program). Ms. Fisher, the Institute auditor, served as executive sponsor of Cohort II, which commenced in March 2013.

Peer group affiliation was still an important theme in FY2013. The Institute auditor is a member of the "Ivy+" association of Ivy League and other peer institutions (formerly known as the "Little 10+"), which meets semiannually. Associate audit director Martha Jane Gagnon attended an annual peer group (research intensive higher education institutions) meeting hosted by the California Institute of Technology and delivered a presentation titled "One MIT," which focused on the Audit Division's role in the Institute's evolving governance structure.

Presentations at Industry Conferences and Other Venues

Members of the Audit Division are frequent contributors to industry conferences. In July 2012, Institute auditor Deborah Fisher and associate audit director Michael Bowers delivered a keynote address at the annual Institute of Internal Auditors international conference, held in Boston, titled "How Internal Audit Can Add Measurable Value in the Future," which focused on embedding frameworks and value-added activities, as well as partnering with management. At the same conference, Mr. Bowers and audit services manager Elvie Mahoney delivered a second presentation, "Internal Audit's Role in Evaluating Research Administration." Other presentations included "Designing an Internal Audit Dashboard for Improved Accountability and Communication," delivered by Mr. Bowers and senior staff auditor Antwon Ward at the annual ACUA conference; "MIT Audit Division's Role in Evaluating Research Administration," delivered by Mr. Bowers and Ms. Mahoney at ACUA; and "Surviving an Audit: From Proposal to Closeout," delivered by Mr. Bowers with a colleague from Partner's HealthCare at the National Council of University Research Administrators Region 1 discussion group.

The Audit Division was represented at an annual user conference in the fall sponsored by Pentana, the software company that produces and supports the Institute's audit system of record, the Pentana Audit Work System. The highlight of the event was a look at the next generation of software under development, a web-enabled platform, to which the division plans an upgrade.

Related Initiatives and Administrative Matters

Departmental work continues to further improve internal audit practices, tools, and platforms. Dashboard reporting (measures of internal audit performance and audit results) was successfully programmed for regular production, enabling Audit Division management to visualize and compare audit productivity and results. Project work continues to leverage dashboard programming for reporting to the Risk and Audit Committee and senior management.

In fall 2012, Audit Division's SharePoint web platform went live to support management's commitment to develop electronic content management to facilitate group sharing and the distribution of materials within and outside the division. Simultaneously, Audit Division management began to plan and strategize for an upgrade to the division's audit system of record. As this upgrade was known to be web-based and to offer a much more dynamic and relevant risk-based view of auditable entities, substantial consideration was given over a course of months to anticipated system configuration.

Involvement in Institute Committees and Collaborations

The effectiveness of an audit function is greatly enhanced through trusting relationships with administrators of all levels and through 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 Division 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 Institute Council on Environmental Health and Safety, the Working Group on Events Planning and Scheduling, and the Parking and Transportation Committee (a presidential committee). Audit Division directors and managers are consulted frequently on control best practices in processes that are under study for streamlining or improvement (for example, cost sharing).

The Audit Division was also asked by the executive vice president and treasurer for representation on several strategic initiatives that support the Institute's mission and foundation for the future. These include—among a host of interrelated projects— participation on the Integration Team (streamlining hiring, onboarding, and development) and the User Advisory Group (offering guidance to implement an administrative systems hub).

Current Goals and Focus

Risk Council

In all its undertakings, MIT inherently accepts and manages risk. The Executive Committee of the MIT Corporation and senior leadership have stated their desire for mechanisms and structures to inform the understanding of risk as a dimension of the Institute's position—financially, operationally, legally, and reputationally.

The Institute auditor and the deputy general counsel collaborate to support the MIT Risk Council, which comprises 25 individuals representing business process areas across the campus and from Lincoln Laboratory, who together contribute to the definition of what risk means to MIT. This year, the group drafted risk statements for the Institute and proceeded to map risks accordingly to create a preliminary heat map. The map was presented to the Risk and Audit Committee at the committee's meeting in December 2012; committee members expressed interest in briefings on risk topics, which were subsequently included as agenda items at future committee meetings.

Deborah L. Fisher
Institute Auditor