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 Laboratory 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 remained on 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 Laboratory Audit Service Team also conducts a priority-based internal audit program that focuses on the business processes and controls implemented at 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 Lab 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 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 advisory 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 out 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 the division in setting policy and direction to help it achieve its long-term goal of assuring that MIT's audit function supports the Institute's research and educational mission with world-class resources and tools.

FY2012 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. The division sought alignment with key initiatives, such as Digital MIT and international initiatives, 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 Operations

The primary objective of Campus Audit Operations 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, 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). 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, as well as by not assuming operational roles or undertaking responsibility for designing or implementing controls.

Campus Audit Operations substantially completed its FY2012 audit plan as of June 30, 2012. The FY2012 audit plan comprised 27 targeted reviews of various Institute business processes and 26 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, 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 FY2012 audit plan included the following:

- *Process reviews.* Reviews of the Institute's financial aid granting process, gift acceptance procedures, vendor sourcing, hazardous materials management, and financial and administrative controls within the Technology Licensing Office, the Industrial Liaison Program, and the Security and Emergency Management Office. Also, a review of the Institute's new electronic paystub and W-2 issuance, the Request for Payment process, and of compliance with new Department of Homeland Security employment verification requirements ("e-Verify").

- *Targeted reviews.* A specific review of salary charges and payments for a faculty member in transition to another institution was requested by management. The impact of reduced funding of a federal program in relation to ongoing expenditures within a major laboratory was also requested by Institute management. Other targeted reviews included administrative controls within the Offices of the Deans for Graduate and Undergraduate Education, and compliance with payment card industry standards as applied at MIT.

- *Advisory reviews.* The focus in FY2012 included cost reviews for the various capital construction projects, testing in support of the financial statement audit, and reviews in several other areas, including the employee tuition assistance program procedures, a questionable faculty reimbursement, and expenditures in a professional education program sponsored by the School of Engineering.

Lincoln Laboratory Audit

FY2012 was the fourth year of an established audit function for Lincoln Laboratory. 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. Responsiveness to, and interest in, activities on the part of the laboratory's administration is gratifying, and the partnership is a model for effectiveness.

In October 2011, the Defense Contract Management Agency (DCMA) issued its 2011 Contractor Purchasing System Review results to Lincoln Laboratory management. At management's request, internal audit validated the responses to DCMA, including a determination that corrective actions were taken as reported, thereby providing assurance to senior administration and DCMA. Audit also designed an internal controls self-assessment framework for use by Lincoln Laboratory's financial services division and other areas at management's election.

As 2012 comes to a close, the Audit Division is poised to launch a business process review of controls over the laboratory's procurement process to ensure that its 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 Research Administration Compliance Program site visit program completed 11 visits during FY2012, concentrating this work on the School of Engineering and Vice President for Research areas, as well as continuing with reviews in the School of Science. 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

Departure

In April 2012, senior internal auditor Ashish Jain left MIT, after five years in the Audit Division for a promotional opportunity at Boston College. We are grateful to Mr. Jain for his many contributions, including enhancements to the Division's data analytics and monitoring capabilities. As the year closes, a search is underway to fill this position.

Training and Peer Interaction

The Audit Division emphasizes professional development for all its staff members, who find opportunities for training in their discipline and affiliate with industry peers through conferences, seminars, and group meetings. Most Audit Division staff members maintain professional certifications which are accompanied by continuing professional education requirements, and the Audit Division supports these requirements. 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.

Peer group affiliation was an important theme in FY2012. The Institute auditor is a member of the "Little 10+" association of Ivy League and other peer institutions, which meets semiannually. The associate audit directors attended an annual peer group (research intensive higher education institutions) meeting hosted by the University of Pennsylvania, and delivered a presentation on "Auditor of the Future—MIT Audit Division 2020." In addition, information technology staff representing the same group of institutions convened this year at Columbia University; MIT's IT audit staff was represented.

Presentations at Industry Conferences and Other Venues

Members of the Audit Division are frequent contributors to industry conferences. In August 2011, Institute auditor Deborah Fisher participated as part of the industry leader forum at the MIS Audit Leadership Institute held annually in Boston. In September 2011, several staff members attended Audit World 2011, a practitioner's best practice conference at which Ms. Fisher delivered a keynote presentation 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.

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.

In March 2012, Audit Division management participated in a Federally Funded Research and Development Center Audit Consortium meeting hosted by Lincoln Laboratory. Also in March, the Audit Division hosted a Compliance Forum for regional universities interested in sharing best practices for auditing research and other compliance-related areas throughout their respective enterprises.

In May 2012, associate audit director Michael Bowers and Ashish Jain presented at the regional meeting of the National Council of University Research Administrators on "Using Data Analysis to Enhance Compliance," and senior compliance specialist Kallie Firestone and a colleague from Harvard University presented on "Risk Assessment and Compliance." Finally, in June, senior internal auditor Michelle Jackson hosted a session at a meeting of the New England Audit Command Language Users Group titled "Use of Data Analytics."

Related Initiatives and Administrative Matters

Departmental work continues as well to further improve internal audit practices, tools, and platforms. The Audit Division conducted a retreat in November 2011, for which almost all staff participated in material preparation and presentation; discussion focused on investment in the following value-added activities:

- Use of technology
- Development of communication skills and media
- Strategies for assessment of international initiatives

There is a commitment to developing electronic content management to facilitate group sharing and the distribution of materials within and outside the Division. Dashboard reporting (internal audit performance measures) was a goal for the year; a draft design has been rendered, and programming efforts are underway.

The Audit Division hosted a group of graduate students from Bentley University in the fall. As part of their formal studies, students were interested to learn about the workings of a university audit department. MIT benefited from the receipt of the formal report highlighting departmental strengths and weaknesses as well as compliance with the Institute of Internal Auditors Standards. The results and recommendations from the students' visit may serve as a stepping stone for the Division's Quality Assessment Review, which is prescribed by IIA Standards.

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, 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 improving (for example, cost sharing).

Notably, the Institute auditor lent the time and talent of the associate director for business and technology operations to laying the foundation for a significant project to remedy external auditor findings regarding the design of security over MIT's financial business functions, as implemented in systems applications products. This project work is now successfully transitioned to the vice president for finance. The Institute auditor and associate director for business and technology operations continue to contribute time and Audit Division resources to a collaborative effort, led by the assistant provost for research administration, to implement metrics for the ongoing measurement and monitoring of the quality of research administration. Also during the year, a multi-functional group was formed to streamline procedures for events planning campus-wide and to improve the overall community experience and access to services and spaces to support its events. The Audit Division was asked to assist this team as well.

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 structure 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 are co-collaborators in a new initiative to meet this need. In March, the MIT Risk Council was formed, comprising 23 individuals representing areas across the campus and from Lincoln Laboratory, who together are helping define what risk means to MIT. This incipient group has only started the work of risk identification, and will advance the effort at a growing pace in the upcoming year. Even in the early stages, it is clear that the comprehensive view of how MIT faces and manages risk will fundamentally support the Institute as it takes on new challenges, and will greatly enhance the effectiveness of the Audit Division.

Deborah L. Fisher
Institute Auditor