



**AUDIT COMMITTEE
APRIL 21, 2010
8:00 A.M.**

**BOARD ROOM
WELLS FARGO PLACE
30 7TH STREET EAST
SAINT PAUL, MN**

Please note: Committee/Board meeting times are tentative. Committee/Board meetings may begin up to 45 minutes earlier than the times listed below if the previous committee meeting concludes its business before the end of its allotted time slot.

Committee Chair Thiss calls the meeting to order.

- (1) **Minutes of March 16, 2010** (pages 1-8)
- (2) Follow-up to the OLA's Evaluation of the System Office (pages 9-10)

Members

Scott Thiss, Chair
James Van Houten, Vice Chair
Jacob Englund
Dan McElroy
David Paskach

Bolded items indicate action required.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE
MEETING MINUTES
March 16, 2010**

***Audit Committee Members Present:** Trustees Scott Thiss, Chair; Jacob Englund, Dan McElroy, and James Van Houten.*

***Audit Committee Members Absent:** Trustee David Paskach.*

***Other Board Members Present:** Trustees Duane Benson, Cheryl Dickson, Christopher Frederick, Tom Renier, Louise Sundin, and Terri Thomas.*

***Leadership Council Committee Members Present:** Chancellor McCormick, John Asmussen, Laura King, and Gail Olson.*

The Minnesota State Colleges and Universities audit committee held its meeting on March 16, 2010, at Wells Fargo Place, 4th Floor Board Room, 30 East 7th Street in St. Paul. Chair Thiss called the meeting to order at 11:02 a.m.

Approval of the Audit Committee Meeting Minutes

Chair Thiss called for a motion to approve the January 19, 2010 audit committee meeting minutes. There was no dissent and the motion carried. Trustee Van Houten requested that the February 10, 2010 audit committee meeting minutes be amended to reflect Ms. Carolyn Parnell's title as "Interim Vice Chancellor" to be consistent with references in the Finance, Facilities and Technology Committee minutes. This amendment was approved, there was no dissent and the motion carried.

1. Select Principal External Audit Firm (Action Item)

Mr. John Asmussen, Executive Director of the Office of Internal Auditing, reported that the firm of Kern DeWenter & Viere had completed its sixth consecutive year of service as principal auditor. He praised the work that they had done over the years, but reminded members that board policy required a mandatory rotation of audit firms after six years. A Request for Proposals (RFP) was issued in January and three firms submitted proposals which were reviewed by a small internal committee which suggested that the proposal submitted by LarsonAllen be recommended by this committee.

Mr. Asmussen stated that he had been very pleased with the quality of services that LarsonAllen had provided in the past and that he was satisfied that the firm could provide quality service as principal auditor. Mr. Asmussen further stated that the proposal submitted by LarsonAllen outlined a fee structure that represented a 20% discount over the prior fee structure.

Trustee Thiss congratulated the firm of Kern DeWenter and Viere on the high quality services they had provided over the years. He asked which other firms had submitted proposals. Mr. Asmussen informed the committee that proposals had come from Baker Tilly Virchow Krause LLP and from McGladrey & Pullen LLP. He stated that both firms

had submitted high quality proposals and had excellent staff, but could not match the price offered by the firm of LarsonAllen.

Mr. Asmussen introduced Mr. Craig Poppenhagen, principal auditor with LarsonAllen.

Trustee Van Houten asked if there had been changes to how external auditors were allocating their fees. Mr. Asmussen stated that there had been changes in the audit standards over the years that had added some cost to the process. He added that there was more expectation for looking at the risks associated with the control structure. Mr. Asmussen further noted, however, that the audit standards had pushed the system to improve documentation of its internal controls, which made the audit process more efficient.

Trustee McElroy asked how LarsonAllen was able to offer a 20% reduction in its fees. Mr. Poppenhagen stated that LarsonAllen had provided services to the Minnesota State Colleges and Universities for over ten years. He added there would be no start-up costs associated with learning the systems and training people. He added that the firm had offices in Minneapolis as well as St. Cloud and Brainerd which allowed staff in those areas to balance audit work regionally.

Trustee Thiss asked if LarsonAllen would be working with Kern DeWenter and Viere to share past work papers so that there would be a seamless transition. Mr. Asmussen assured the committee that the firms were accustomed to sharing work papers, both due to contract requirements and current audit standards.

Trustee Englund made the motion, Trustee Van Houten seconded. The Audit Committee recommends that the Board of Trustees approve the following motion:

RECOMMENDED COMMITTEE ACTION

The Audit Committee recommends that the Board of Trustees approve the following motion:

RECOMMENDED BOARD OF TRUSTEES MOTION

The Board of Trustees approves the appointment of LarsonAllen to serve as principal external auditor for the Minnesota State Colleges and Universities. The principal auditor is responsible for providing audit services of the following:

- *System-wide financial statements,*
- *Revenue Fund financial statements, and*
- *Federal Financial Assistance.*

The term of this appointment begins upon execution of contracts and shall continue to fulfill external auditing needs for the three fiscal years from June 30, 2010 through 2012. The Board of Trustees authorizes the Executive Director of Internal Auditing and the Vice Chancellor/Chief Financial Officer to negotiate contracts with

LarsonAllen consistent with the terms contained in its proposal dated February 23, 2010.

2. Review Results of Annual Student Financial Aid Audit (Information Item)

Mr. Asmussen introduced Ms. Beth Buse, Deputy Director of Internal Auditing, Mr. Christopher Halling, System Director for Financial Aid and Mr. Steve Wischmann, Partner with Kern, DeWenter, Viere, Ltd.

Ms. Buse explained that federal law required an annual audit of the federal financial aid programs. Kern, DeWenter, Viere had conducted this audit as part of its role as the principal auditor for the system. The results of the audit and the findings and recommendations were incorporated into the State of Minnesota's Single Audit Report which will be issued to the federal government by Minnesota Management and Budget by the end of March, 2010.

Ms. Buse provided background and context for the report. She stated that there had been a 31% increase since 2008 in federal loans received by students. There was a slight increase in the number of students that received loans. In addition, each student receive \$1,000 more on average, due in part to increased loan limits.

Trustee Thiss asked what the total debt by student would be cumulatively. Ms. King stated that the most recent study by research and planning was based on 2006 data and reported that on average, Minnesota college and university students combined had graduated with loan debt in excess of \$10,000.

Finally Ms. Buse stated that there the audit cited \$4,500 in questioned costs due to isolated errors that occurred on some campuses. She noted that this number was down from \$5.5 million in questioned costs in 2003. Ms. King stated that the data on questioned costs was a real way to measure the improvement in the campus process environment, the internal control environment and the oversight, coaching and monitoring that had been put in place by the system office. She further noted that results helped to ensure the ability to access federal financial aid funds for students. Ms. King stated that the audit committee deserved recognition for their steady pressure on the operation.

Trustee Van Houten commended the good work being done on the campuses despite staffing and funding disadvantages and he asked if there was communications planned to share the success. Ms. King assured the committee that she and her staff had letters drafted to send out once the report was made public.

Mr. Wischmann stated that his firm was issuing a clean or unqualified opinion on compliance with the single audit report to be incorporated in with the Legislative Auditor's report. Mr. Wischmann presented the findings of the audit. He emphasized that the findings were very minimal, including some small procedural reporting changes. He stated that the system had shown significant improvements in process and procedures and in the calculation precision.

Finally, Mr. Wischmann reviewed the two unresolved prior audit findings. He was confident that these findings would be addressed and would not be reported again. Trustee Thiss asked if the system-wide findings were included in the report. Mr. Wischmann stated that the reporting package required reporting both federal financial aid findings as well as financial statement findings which had been reported late in 2009. Trustee Thiss asked if the financial statement findings were being cleared as well. Mr. Wischmann agreed and stated that the vast major of the issues had been implemented or were being implemented. He further stated that the system had a good process for the tracking those findings.

Mr. Halling recognized Mr. Jonathan Eichten whose job had been to implement the process to review what the campuses had done, monitor their performance in specific transactions and activities and establish a baseline of a normal activity level. He added that staff also ran reports to ensure that calculations were properly. Mr. Halling noted that the system received well over \$700 million in federal financial aid funds annually. He praised the strong commitment the institutions had made towards this critical area. Trustee Thiss thanked staff for the work they had done to generate the great audit report.

3. Preliminary Review of Policy 1D.1 (Information Item)

Mr. Asmussen reminded members that Board Policy 1A.1 requires that all policies be reviewed on a five year rotation and that Policy 1D.1 was due for such a review. Mr. Asmussen noted that internal auditing standards had undergone recent changes that would need to be incorporated into policy language. He stated that although the Office of Internal Auditing had dropped its consulting line of services, current policy language allowed for consulting services subject to the availability of funding and did not require them, so that language may not warrant amendment.

Trustees briefly discussed the benefits of a five year schedule for policies. Trustee Thiss asked members to provide comments to Mr. Asmussen informally and Mr. Asmussen agreed to draft a first reading for a future committee meeting.

4. Follow-up to the OLA's Evaluation of the System Office (Information Item)

Chair Thiss explained that the findings from the report could be categorized into four strategic areas, which included Students First, board oversight of Office of the Chancellor, IT systems, and regional or multi-campus efficiencies. He stated that Chair Olson has asked the audit committee to be involved in the area of Students First from a research standpoint, as it related to the student credit transfer issue and also to work with the other committees on the issues related to board oversight.

Chancellor McCormick stated that report had not contained any recommendations for legislative changes. Mr. Asmussen concurred and stated that Mr. Jim Nobles, Legislative Auditor, had clearly stated to the Legislative Audit Commission that he had at confidence in the Board of Trustees and that resolution of the findings should rest with the board. Mr. Asmussen added that overall, the report by the Office of the Legislative Auditor had been very positive. He stated that of the 106 functions that had been were reviewed by the auditors, there had only been thirteen items that they had suggested the board review more closely.

Mr. Asmussen stated that Chair Olson had asked each committee to consider the best way to periodically evaluate the value of the service provided by the division of the Office of the Chancellor that each committee was responsible for overseeing. The audit committee was responsible for the Office of Internal Auditing. Mr. Asmussen noted that board policy required an annual report be presented to the audit committee each year. He reminded members that the Office of Internal Auditing provided an annual plan at the beginning of the year, and at the end of the year, an annual report was presented that reviewed prior year accomplishments. Mr. Asmussen stated that the model gave the committee the kind of evidence needed to evaluate whether the office was providing meaningful value.

Chair Thiss agreed. He added that the audit committee would have an additional role of working with other committees to ensure that there were valid metrics across the board. Mr. Asmussen added that board oversight was on the agenda for all of the committees in March. He stated that he would work with cabinet members and bring something back to the audit committee and the executive committee in April.

Trustee Van Houten noted that there was a recommendation in the report that where feasible, the MnSCU system office should improve its ability to monitor the administrative productivity and efficiency of institutions, and measure institution and system office administrative costs. He asked how oversight of the institutions by the system office would be incorporated into the review. Mr. Asmussen stated that the vice chancellors were asked to think about not only the value of their divisions, but also the value of those services on the campuses as well. He added that the finance committee would be discussing how regionalization and multi-campus services could be pursued.

Mr. Asmussen stated that the audit committee had been asked to consider the student credit transfer issue. He stated that he had met with the chair and vice chair of the audit committee and there had been a meeting with the student associations and a couple of the student trustees as well to begin discussions on where to go with the topic of student credit transfer in the audit committee. Mr. Asmussen stated that it was vital to have the students be part of the process and the solutions that would be put forward. Trustee Thiss stated that the meeting with student leaders had been very positive and there had been a great dialog.

Mr. Asmussen stated that the student association had launched a survey of students throughout the system in late 2009 to get a better gauge of what if any problems remained in the area of credit transfer. The administration of the survey was done through the research and planning division in the Office of the Chancellor, but the student associations took ownership for developing the survey instrument and selling the concept to their members. Mr. Asmussen stated that the survey would be a valuable piece of evidence to consider in determining where there might be problems with transfer. He stated that Mr. Craig Schoenecker had gotten responses from over 1,000 students and he would be working with the student associations to bring a preliminary report back to the this committee in April.

Trustee McElroy asked how many students had been surveyed. Mr. Asmussen stated that

there had been a random sample selected, through the research and planning office, of 10,000 students. He stated that Mr. Schoenecker were looking closely at the data to determine whether the response of the 1,000 students was representative of the larger body. He stated he thought that students would be more likely to respond if they thought there was a problem. He added that he was reasonably confident that if there were credit transfer problems, then the survey would have been an effective way to identify their existence.

Mr. Asmussen stated that there had been a spot for student credit transfer on the original accountability dashboard which had shown the proportion of credits that were transferred. That measure had not been carried forward to the new dashboard, but there was a body of statistical data that had been accumulated that could be accessed quickly. He stated that the Office of Internal Auditing would begin analyzing that data. He stated that the concentration would be on credits that did not transfer, to make a determination if it was reflective of a systemic barrier or breakdown in the process. He noted, however, that there were legitimate reasons why some credits might not transfer.

Mr. Asmussen stated that the plan would be to review the data at the April committee meeting and make some final considerations at the May meeting. If there are issues that needed to be addressed, the audit committee could reassign those issues back to policy committees.

Trustee Thiss agreed that the process for reviewing the student credit transfer issue should be data driven. He stated that one of the things that he heard in the meeting with student leaders was that when credits do not transfer in their field of study, that was a serious problem.

Trustee McElroy asked if any national literature had been published on issues of student credit transfer in other systems that might offer guidance as to what kinds of things to look at or what kinds of things might fix the problem. Mr. Asmussen stated that there was a rich body of scholarly research on the transfer issue, and that it had been an item of discussion and movement in other states. He stated that he thought there was a national expectation that credit transfer should be promoted, that it might be an efficient solution to improving college completion. Mr. Asmussen stated that he could do a limited literature review as a component of the study. Trustee Van Houten stated that he had seen a letter written to the US Department of Education Secretary, suggesting there was a need for federal guidelines on student transfer, which suggested this issue was a national issue for higher education.

Trustee Englund expressed his concern as a transfer student that problems with credit transfer within the system had not already been solved. He was pleased that the issues would be receiving attention in the committees, but expressed his desire that the issue be worked on quickly and efficiently. He added that it was an opportunity for the board to improve an integral part of the system. Trustee Thiss agreed and stated that the audit committee's role would be to generate the data and the information necessary for other policy committees to use to resolve any lingering issues with student credit transfer.

Trustee Sundin stated that part of the committee's responsibility was to gather additional

information from faculty, staff and administrators on the subject, which she added was very important. She added that she thought there may be a lack of trust between the levels of people in the organization which may require more communication and connections between the levels. Trustee Sundin further stated that it would be valuable to know if there were more difficult to transfer from one type of institution to another.

Trustee Fredericks asked how credit transfer would be defined for the purpose of the data collection. Mr. Asmussen stated that they would review data on students transferring within the system because they could compare information from the sending and the receiving institutions and which would indicate if the credits transferred. He added, however, that it was important to determine not only if the credits transferred, but whether those credits ultimately counted toward the student's degree. Mr. Asmussen stated that a statistical sample of students could be drawn to see to what extent their credits counted toward their degree other than just being general education or elective credits. He added that the point should be efficiency and completion. Finally, Mr. Asmussen stated that transfers from outside the system could be quantified in terms of the magnitude at which they showed up on transcripts, but data from the sending institution could not be captured.

Trustee Van Houten stated that it was important to clearly understand where the data came from in order to improve the communication links between all of the different levels of people involved. He further stated that in order to protect the students, there needed to be assurances that the catalog course descriptions reflected the department descriptions as well as what was actually being presented in the classroom. He stated that the committees would need to solve those steps to ensure that a student reading the catalog would understand what would be delivered in the classroom. Trustee Thiss stated that the audit committee would work to collect the data that would assist other committees find solutions to those issues. He noted that the DARS and CAS systems, which the audit committee was directive in getting implemented, should aid in that data collection.

Trustee Dickson asked if it would be possible to determine if some institutions were handling transfer exceptionally well. Mr. Asmussen stated that the intention was to drill down by institution as well as by program of study.

Trustee McElroy reminded members that the issue of student credit transfer had come up at each of the recent listening session that had been held around the state. He added that he agreed with Trustee Sundin's assertion that engaging the faculty was critical. He stated that they had heard three kinds of barriers to transfer; systems barriers, cultural barriers and accreditation barriers, and he stated that there could be others. He noted that some of the national accreditations carried requirements about what could be transferred, such as only accepting courses for transfer that were taught by someone with a terminal degree in their field.

Chancellor McCormick agreed with Trustee Frederick that it was important to define student credit transfer. He stated that in some states student transfer was defined as general education courses only. But he cautioned that the student leadership had been clear in their hopes that transfer should include credits that would be applied toward a

baccalaureate in their field. Chancellor McCormick stated that, while it was discouraging to hear that problems still may exist, it was critical to find out what those problems actually were before solutions were proposed. He was pleased with the plan to gather the appropriate data and he praised the student associations for their work on the student survey.

Trustee Frederick asked if would be possible to look into the data and focus on the types of credits being transferred, such as general education credits. Mr. Asmussen stated that the scope would not be limited to just general education credits, but would concentrate primarily on credit movement within the system.

Trustee Van Houten asked how the model to analysis the data had been developed. He expressed concern that the data would be accepted by all interest groups. Mr. Asmussen assured the members that the first data set was one that had been vetted through the institutional research group by Mr. Schoenecker a number of years ago.

Trustee Thiss stated that the initial data sorts may raise more questions, but it was important to gather the data first and then evaluate it.

The meeting adjourned at 12:30 a.m.

Respectfully submitted,
Darla Senn, Recorder

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: April 21, 2010

Agenda Item: Follow-up to the OLA's Evaluation of the System Office

- Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring
- Information

Cite policy requirement, or explain why item is on the Board agenda:

Board Chair David Olson has assigned certain responsibilities to the audit committee for addressing the findings cited in the February 2010 program evaluation conducted by the Office of the Legislative Auditor *MnSCU System Office*.

Scheduled Presenter(s):

John Asmussen, Executive Director for Internal Auditing

Shannah Moore Mulvihill, Director of University & System Relations
Minnesota State University Student Association

Jessica Medearis, Director of Public Affairs
Minnesota State College Student Association

Outline of Key Points/Policy Issues:

- The two student associations have surveyed students about their transfer experience and will present preliminary content from the survey results (final report planned for May 2010).
- The Office of Internal Auditing is analyzing system data on student credit transfer.

Background Information:

- The evaluation was requested by the Chancellor and the Board of Trustees Chair, and it was authorized by the Legislative Audit Commission.

**BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

BOARD INFORMATION

FOLLOW-UP TO THE OLA'S EVALUATION OF THE SYSTEM OFFICE

BACKGROUND

On February 10, 2010, the audit committee met with Legislative Auditor Jim Nobles and his staff to review and discuss their program evaluation report, *MnSCU System Office*. Based on that discussion, the Audit Committee Chair made several recommendations to the Board Chair on how to address the report findings. In a letter to the members of the Board of Trustees dated February 17, 2010, Board Chair David Olson acted on those recommendations and assigned responsibilities to the board committees for addressing the findings cited in the report.

The April 2010 meeting will focus on the audit committee responsibilities for studying student credit transfer. Chair Olson assigned this responsibility to the audit committee in his February 17, 2010 letter. The committee will be provided with preliminary information on two research efforts related to this study:

- The two statewide student associations, with assistance from the Office of the Chancellor Research and Planning Division, have administering a survey of students about their experience with transferring credits. Representatives from the associations will present preliminary information on the survey results to the committee and discuss their plans for developing final recommendations. They plan to present a final report to the audit committee at its May 2010 meeting.
- The Office of Internal Auditing is testing fiscal year 2009 student records to identify the extent that credits may not have transferred between MnSCU colleges and universities and the reasons for any unsuccessful credit transfers. Part of the testing will focus on a stratified random sample of students entering a MnSCU college or university after having earned credits previously at another MnSCU college or university. A second test will analyze the transfer experience of students who earned a baccalaureate degree in either Psychology or Accounting in 2009.

Committee members interested in good background information on the credit transfer issue are encouraged to review articles available from the Education Commission of the States. See <http://www.ecs.org/ecsmain.asp?page=/html/IssueCollapse.asp>

The audit committee is scheduled to take final action on referring any credit transfer issues to board policy committees at its May 2010 meeting.

Date Presented to the Board of Trustee: April 21, 2010