

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE
MEETING MINUTES
July 20, 2010**

Audit Committee Members Present: Trustees James Van Houten, Chair; Philip Krinkie, Alfredo Oliveira, and Thomas Renier.

Audit Committee Members Absent: Trustees Dan McElroy and Michael Vekich.

Other Board Members Present: Trustees Christopher Frederick, David Paskach, and Louise Sundin.

Leadership Council Committee Members Present: Chancellor McCormick, John Asmussen, Beth Buse, Laura King, Gail Olson, President Pat Johns.

The Minnesota State Colleges and Universities Audit Committee held its meeting on July 20, 2010, at Wells Fargo Place, 4th Floor Board Room, 30 East 7th Street in St. Paul. Chair Van Houten called the meeting to order at 9:19 a.m.

Approval of the Audit Committee Meeting Minutes

Chair Van Houten reviewed highlights from the June meeting. Trustee Renier moved to approve the June 15, 2010 Audit Committee meeting minutes, Trustee Krinkie seconded the motion. There was no dissent and the motion carried.

1. Status Report on Office of the Legislative Auditor Program Evaluation (Information Item)

Dr. John Asmussen reviewed the status report for the Legislative Auditor's Program Evaluation of February 2010. He noted that copies of the report had been distributed to new committee members as well as copies of a memorandum from former Board Chair David Olson that assigned responsibilities to policy committees. That memorandum provided the structure used to follow-up on the status of the audit findings.

Dr. Asmussen explained that Chancellor McCormick and former Board Chair David Olson had requested the Legislative Audit Commission to conduct a program evaluation of the role of the Office of the Chancellor within the context of the system. The program evaluation looked at operations of the system and raised a number of issues. Dr. Asmussen noted that there were five items raised in the report that were identified as strategic issues and another fourteen issues that were specific action items that the auditors thought were worthy of consideration.

Dr. Asmussen stated that the Audit Committee would be expected to provide ongoing updates on the status of findings. He asked members to consider the red, yellow and green color coded summary format and to provide feedback on whether the format would

be appropriate going forward. He further asked members to help determine a definition of completion for each finding. He stated that they had developed some suggestions, but that the Board committees would need to play a key role in helping to define expectations for completion. Dr. Asmussen defined the three colors and gave examples of completion expectations for several findings in each category.

Trustee Van Houten asked for clarification on the timeline in the Board Chair's memorandum to the committee chairs. Ms. Laura King, Chief Financial Officer, stated that former Board Chair and the Chancellor recognized that some of the tasks could not be completed by December 2010 and she noted that the timeline reflected several issues that planned a June 2011 completion. She further stated that by December, the Board and the Chancellor expected a stalwart commitment toward resolution, so that when the legislature returned in January there would be a very robust, articulate plan for responses to each of the issues that had not yet been completed. Dr. Asmussen agreed and added that the Chancellor had made a commitment to the Legislative Audit Commission that he will return to them with a status report in January. He noted that there would need to be a draft report in November 2010 with a final report in December.

Dr. Asmussen reviewed the three issues that were shown as red, stating that they would require some kind of action to develop a full plan or even to form a completion date. He noted that the Development Division's role and organization needed action by the Advancement Committee. The Auditor raised a question as to whether the Development Division should continue to remain a freestanding division or be restructured into a different division in the Office of the Chancellor. The Advancement Committee has had several discussions about that. They have made policy changes and changes in the way the reporting works, but they had not reached a definitive conclusion. Dr. Asmussen stated that there needed to be an action by the committee that they had reviewed the recommendation and they either intend for the Development Division to continue as it has or they that intend to restructure the division in some other way.

Trustee Krinkie asked for clarification about the auditor's recommendation in regards to the Development Division. Dr. Asmussen stated that the Legislative Auditor did not have a specific recommendation; they noted that their survey indicated some concern about the role of certain functions in the Office of the Chancellor. Their overall recommendation for these functions was to review them, give them thoughtful consideration, and decide if they merit being restructured.

Trustee Van Houten asked what the role of the Audit Committee would be when a project was not on schedule. He asked if there would be ongoing communication between the different committee chairs and the Audit committee. Ms. Buse stated that Chair Thiss had indicated that Vice Chair Hightower would play a role in communicating back to the different committees, but she added that the Audit Committee would need to determine the best approach for informing Vice Chair Hightower on how to communicate with the other committee chairs. Trustee Van Houten agreed and commented that he would expect that when a project was highlighted as red, there would be feedback available about what was being done to complete the project

2. Discuss Approach for Auditing Internal Controls (Information Item)

Dr. Asmussen stated that the discussion of the approach for auditing internal controls was spurred by a financial audit that the Legislative Auditor had conducted at St. Cloud State University. He reminded members that the system had contracted with the Legislative Auditor to audit the smaller colleges on a rotational basis, auditing six or seven colleges each year. That coverage provided regular coverage to the smaller institutions as well as a learning opportunity to discover potentially chronic issues that might be addressed across the system. St. Cloud State University has been audited by an external accounting firm annually for the past nine years. The audit conducted by the Legislative Auditor raised some additional questions, and as a result, the Audit Committee is considering whether to revisit the external audit strategy.

Dr. Asmussen stated that Mr. James Nobles, Legislative Auditor, raised two questions at the June Audit Committee meeting. He asked whether the system had the right formula for assessing the risks associated with its internal controls, and he had urged that more be done. Dr. Asmussen reminded members that there had been a rich exchange but that there had not necessarily been an agreement with Mr. Nobles' position. Vice Chancellor King had been very clear about her opinion in her response to that report and in her comments last month. He stated that there is more to the discussion than simply expanding the risk component of the internal controls. Dr. Asmussen pointed out that Board Policy 7.3 Financial Administration, outlines responsibility for financial management assurance and amendments to that policy could be discussed in the Finance Committee.

Trustee Van Houten asked Vice Chancellor King to comment on implications of the risk management issues. Vice Chancellor King suggested that the committee might provide direction on three questions. The first question was how the external audit program should be structured going in to the future. The second question was how to structure the internal control assurance program. And finally she asked what the expectations were around the investment vs. cost benefit for those two programs, both at the Chancellor's level and in the colleges and universities.

Vice Chancellor King stated that the Audit Committee, and several previous generations of the committee, have had very good conversations about expectations and the alignment between Board policy and college and university expectations. She stated that the issues raised by the auditors were welcomed and added that the Audit Committee was asked for advice each year about the external audit plan. She urged the committee to broaden the conversation to discuss how external auditors could be used as part of a larger financial assurance strategy, because it was within that context that the system spends nearly a million dollars a year on external auditors. She stated that it would be timely and appropriate to have conversations about the cost benefit, trading off assurance against the cost of gaining that assurance.

Finally Vice Chancellor King stated that the conversation was mostly about campus impacts, and that it was important to be mindful that there could be staffing implications, resource implications, and work pattern implications for every college and university.

Dr. Asmussen agreed with Vice Chancellor King that the dynamic of cost benefit was an important part of the discussion. He stated another issue to consider was the extent to which the committee wanted to continue to use public accounting firms to audit the colleges and universities. He discussed the background for that decision and reminded members that the decision has been revisited annually. Dr. Asmussen noted that there was time for additional conversation by the committee and that the process for renewal of six external auditing contracts would not be scheduled to begin until January 2011.

For the benefit of new committee members, Trustee Van Houten explained how the system had contracted with external auditing firms to audit the thirteen largest universities and colleges annually and with the Office of the Legislative Auditor to audit the smaller colleges on a rotational basis. He stated that issues that were identified, and the resolutions, were used to educate colleges and universities system wide. He noted that the question for the committee to discuss would be whether the system would incur greater risk by contracting for audits of fewer of the larger institutions. He further noted that the implication would be that reducing the number of large audits would save money, but additional resources would likely have to be put into the Office of Internal Auditing budget for more staffing to cover the additional audit work. Trustee Van Houten reminded members that the Chancellor's goal was to reduce the Office of the Chancellor budget by five million dollars over the next two fiscal years and he noted that it was appropriate that the Office of Internal Auditing participate in that budget reduction process in some way. He noted, however, that budget determinations could not be finalized until there were decisions about how future audit coverage would be conducted.

Vice Chancellor King stated that there was time to have those discussions and she added that the Board of Trustees would review the Office of the Chancellor budget process in December. Ms. Buse stated that the committee could have a deeper conversation at the special Audit Committee meeting in August. Trustee Van Houten asked that Vice Chancellor King plan to attend the special meeting.

3. Transition for Executive Director of Internal Auditing (Information Item)

Dr. Asmussen introduced the Office of Internal Auditing staff, who were nearly all present for the Audit Committee meeting. He thanked them for coming and complimented their experience and work over the years. Dr. Asmussen turned over the presentation to Ms. Buse, stating that he was confident that Ms. Buse would continue the momentum that was in place and ensure that progress would continue to move forward.

Ms. Buse reviewed the proposed Audit Committee topics for fiscal year 2011. She noted that there were plans for a special meeting in August. Trustee Van Houten noted that the training for Audit Committee members which was scheduled for August was a Board policy requirement. He noted that the type of training might be different each year depending on what the committee required.

Trustee Van Houten asked if the committee would be ready to approve an Audit Plan as early as mid September. Ms. Buse stated that her goal would be to have an Audit Plan

ready for the committee by then. She stated that there would most likely be some place holders in the document for topics such as an IT audit plan and the selection of a system-wide project if resources were available. The placeholders would allow for those discussions later in the year. Ms. Buse noted that with the loss of the Office of the Legislative Auditor contract, decisions about internal control coverage would need to be a high priority. She stated that the audit work usually began in December or early January, and the resources to provide that coverage would need to be in place prior to the start of that work.

Trustee Van Houten stated that past Audit Plans contained a certain amount of residual or unassigned time that could be used for a special project during the year. He noted that it may not be possible to calculate residual time until some of the other audit issues were resolved. Ms. Buse agreed and reminded members that the Deputy Director position would be vacant which would make staffing resources tight. She added that it would be difficult to predict what resources were going to be available until after the committee discussions around external audits and internal control coverage.

Trustee Krinkie asked what work had been contracted to the Office of the Legislative Auditor in order to better understand the additional workload that would need to be managed in some other way in the future. Ms. Buse stated that the Office of the Legislative Auditor contract covered financial and compliance audits of the smaller colleges on a three year rotation basis. She explained that they would audit eight or nine colleges each year. The system actually paid the Office of the Legislative to get that audit coverage, which was unique in state government, but those resources were no longer available. She noted that some discussions would need to occur related to the budget and to the use of those previously contracted funds in determining a strategy going forward.

Vice Chancellor King stated that the engagement had been designed to give the early Board comfort at the time of merger, that the financial environment for the smaller colleges and universities were being reviewed. She stated that it had been a productive engagement because the system had been able to use those audits to educate the colleges and universities about financial integrity, controls and oversight. But she added that she was comfortable with the demise of the relationship.

4. Discussion of Committee Goals

Trustee Van Houten stated that Audit Committee goals would be the main topic for special meeting in August. He stated that in preparation for that meeting, it would be helpful if members read the Office of the Legislative Auditor report.

Trustee Van Houten stated that the Audit Committee and the Technology Committee would have a shared role in terms of the oversight activities and planning. He stated that it would be the responsibility of the Audit Committee to ensure that the data gathered and collected by the technology staff to assess performance, would meet the needs of the Technology Committee. Ms. Buse agreed and stated that she and Mr. Darrel Huish, Vice Chancellor for Information Technology/CIO would coordinate with the two committees

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to bring forward a recommendation. She noted that the discussion of the information technology audit approach was scheduled in January.

Trustee Van Houten stated that the role of the Audit Committee would be to support the Technology Committee. Trustee Paskach agreed, stating that coordination would be important. He added that some of the key strategic issues related to the Office of the Legislative Auditor report related to systems.

Vice Chancellor King stated that there was also a substantial financial interest, because part of the information technology audit plan would go to providing assurance through the reliability, accuracy and controls around the financial statements. She urged the committee to keep that strongly at the center of the strategic planning process as a way to organize what would be audited. She stated that there should be clear goals about the audit objective in the area of information technology and she suggested that financial integrity, student data integrity, and public data integrity should be at the center.

Ms. Buse reviewed the priorities outlined for the Audit Committee by Board Chair This.

- Clear past findings; resolve audit findings
- Coordinate OLA response to LAC
- Significant deficiency: ISRS security
- Credit Card policy recommendations
- Do we need thirteen certified audits
- IT Strategic Audit approach

Chancellor McCormick made four observations for the sake of the new committee members. First, he noted that the program audit which was requested by the Office of the Chancellor and the Board did not make any recommendations for legislative changes, and it did not contain comments about the size of the office. He stated that they were considering every recommendation very seriously. Secondly, Chancellor McCormick praised the separation of the Office of Internal Auditing from the Office of the Chancellor as a Minnesota innovation. He stated that he and Dr. Asmussen had been asked to speak nationally over the past years about the internal audit structure.

Chancellor McCormick stated that the Minnesota State Colleges and Universities was a large complex system. He noted that the audit recommendations suggested that the system pay close attention to the risks in the area of information technology. He assured the committee that Mr. Huish would provide good guidance.

Finally, Chancellor McCormick added that the expectation of his goals include cleaning up the audit findings. Although he acknowledged that new findings would emerge, he stated that his objective would be that the new Chancellor would start with a clean slate.

The meeting adjourned at 11:20 a.m.

Respectfully submitted,
Dara Senn, Recorder