



**AUDIT COMMITTEE
AUGUST 19, 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 Van Houten calls the meeting to order.

- (1) Minutes of July 20, 2010** (pages 1-6)
- (2) Discuss Optional Approaches for Future Audit Coverage (pages 7-13)
- (3) Selection of Committee Priorities (pages 14-15)**
- (4) Discussion of Office of Internal Auditing Issues and Priorities for Next Budget (pages 16-17)
- (5) Status of the Office of the Legislative Auditor's Program Evaluation Findings (pages 18-19)
- (6) Roles and Responsibilities of the Audit Committee** (pages 20-32)

Members

James Van Houten, Chair
Phil Krinkie, Vice Chair
Dan McElroy
Alfredo Oliveira
Thomas Renier
Michael Vekich

Bolded items indicate action required.

**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

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

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: August 19, 2010

Agenda Item: Discuss Optional Approaches for Future Audit Coverage

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

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

Due to audit resource changes and the economic realities facing the System, the Audit Committee will be confronted with several audit coverage decisions during fiscal year 2011. This agenda item will help committee members understand how the Office of Internal Auditing has used internal and external resources in the past, laying appropriate context for future decisions.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- During fiscal year 2011, the Audit Committee needs to take action on future audit coverage. This includes internal control and compliance audits, college and university financial statement audits, and information technology audits.

Background Information:

- By mutual agreement, the contractual relationship with the Office of the Legislative Auditor to conduct internal control and compliance audits had ended.
- Mr. James Nobles, the Legislative Auditor, challenged the Audit Committee to consider the value and role of obtaining annual financial statement audits for individual colleges and universities.
- An approach for auditing information technology has not been defined.

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

BOARD INFORMATION

Discuss Optional Approaches for Future Audit Coverage

BACKGROUND

During 2011, the Audit Committee will be faced with a number of decisions on future audit coverage for:

- internal control and compliance audits,
- college and university financial statement audits, and
- information technology audits.

Decisions need to be made on the scope of audit coverage and how to obtain the coverage. Options include hiring additional internal auditing staff, redirecting existing internal audit priorities, outsourcing the audits to public accounting firms, or a combination.

Below is a summary of services provided by the Office of Internal Auditing. In addition, a summary of audits conducted by external audit resources is provided. A brief description of future audit coverage decisions that need to be made is located at the end of this document.

Office of Internal Auditing Services

Table 1 provides a summary of how internal auditing staff resources were used during fiscal years 2009 and 2010.

- **Follow-up on Prior Audit Findings:** The Chancellor and the Board of Trustees expect timely resolution of audit findings. Accordingly, Internal Auditing maintains a database of audit findings and tracks finding resolution. In about January of each year, Internal Auditing assesses the status of prior audit findings and submits a mid-year follow-up report to each president. In June, Internal Auditing prepares year-end follow-up reports and also submits copies to Chancellor McCormick for consideration during his annual performance evaluations of presidents and vice chancellors.
- **Audited Financial Statements:** The Office of Internal Auditing supports external audit firms in their financial statement audits. This level of support provides two benefits: cost savings which make the external audit contracts affordable and strengthen external audit coverage through use of Internal Auditing’s knowledge of the Minnesota State Colleges and Universities system and its business processes.

**Table 1: Percentage of Internal Auditing Technical Service Staff¹ Hours
Fiscal Years 2009 and 2010**

Service	Fiscal Year 2010	Fiscal Year 2009
Follow-up on Prior Audit Findings	28%	21%
Audited Financial Statements	23%	16%
OLA: Internal Control and Compliance Audits	14%	3%
Fraud Inquiry and Investigation Support	11%	12%
System-wide Audits	9%	22%
Professional Advice	8%	7%
Other Internal Auditing Assurances	7%	6%
Consulting Services	0	13%

- **Office of the Legislative Auditor – Finance-Related Audits:** The Office of Internal Auditing helps facilitate audits conducted by the Office of the Legislative Auditor (OLA). By mutual agreement, the contractual arrangement with the OLA is ending. The current contract provided for a transition year in which the OLA contributed approximately 50 percent fewer resources as compared to prior years. The OLA is in the process of completing audits of five colleges with the assistance of the Office of Internal Auditing. Due to the limitation in OLA resources, the Office of Internal Auditing conducted an internal control and compliance audit of St. Cloud Technical and Community College in fiscal year 2010.
- **Fraud Inquiry and Investigation Support:** Internal Auditing assists with conducting fraud inquiries and investigations. When evidence of fraud is identified it must be dealt with appropriately. The results of most fraud inquiries and investigations are reported to affected presidents or the Chancellor for action. Board policy requires that only significant violations of board policy or law, be communicated to the Board of Trustees. The Executive Director of Internal Auditing advised the Chair of the Audit Committee about fraud investigations and reported potential fraud incidents to the Legislative Auditor, as required by state law.

In these times of great uncertainty and change, it is reasonable to expect an increase in the number of issues that will require inquiries and possibly investigations.

- **System-wide Audits:** Each year, Internal Auditing schedules a study of a topic of major system-wide interest. Selected past studies have included:
 - Undergraduate Student Credit Transfer
 - Auxiliary and Supplemental Revenues
 - Affiliated Foundations
 - Student Success
 - Underrepresented Student Populations
 - Post Secondary Enrollment Options

¹ Excludes Executive and Deputy Director hours.

- **Professional Advice:** Internal Auditing also makes itself available to offer professional advice on topics within its expertise. Common questions pertain to compliance with board policies and best practices. Internal Auditing representatives also sit on various MnSCU task forces and committees including: Security Steering Committee, Finance User Group, Chief Information Officers, Students First working groups, and the Affiliated Foundation Policy Task Force.
- **Other Internal Auditing Assurances:** The Office of Internal Auditing also provides other assurance services as requested by the Board of Trustees, Chancellor, or college and university presidents. Some recurring projects include:
 - Transition reviews: Internal Auditing staff facilitate institutional reviews when there is a change of presidents.
 - Testing the compliance of expenses incurred by the Chancellor and Board of Trustees.
 - Compiling the results of the Chancellor’s annual performance evaluation for the Board of Trustees.
- **Consulting Services:** Due to budget constraints, the Office of Internal Auditing eliminated this service line in Fiscal Year 2010.

External Audit Coverage

- **System-wide Audited Financial Statements:** Fiscal year 2010 marks the tenth year that the Minnesota State Colleges and Universities contracted for an external audit of its financial statements. The external audit firm of LarsonAllen is under contract to provide audit services for the system-wide financial statements, Revenue Fund² financial statements, and federal financial assistance. This will be the first year that LarsonAllen provides these services.
- **College and University Audited Financial Statements:** Audited financial statements are generated for 13 of the largest institutions in the System. Table 2 lists the colleges and universities that have financial statement audits.
- **College Internal Control and Compliance Audits:** The annual financial statement audit program ensures that the most significant internal control cycles are reviewed for universities and six of the largest colleges each year. To obtain assurances about the internal controls and fiscal compliance of the remaining colleges, the System has contracted with the Office of the Legislative Auditor (OLA). The OLA audit coverage complements the institutional financial statement audits conducted by CPA firms. Basically, the colleges not subject to an annual financial statement audit and the Office of the Chancellor have been audited by the OLA on a three year rotating schedule.

² The Revenue Fund was created for purposes of financing resident halls, dining halls, student union buildings, parking facilities, wellness/athletic facilities and other revenue-producing buildings as deemed necessary for the good and benefit of students.

By mutual agreement, the contractual arrangement with the OLA is ending. The current contract provided for a transition year in which the OLA contributed approximately 50 percent fewer resources when compared to prior years. The OLA is in the process of completing audits of five colleges with the assistance of the Office of Internal Auditing.

Table 2: Colleges and Universities with Audited Financial Statements

College or University Name	Fiscal Year 2009 Total Operating Expenses ³	Audit Firm for Fiscal Year 2010 Audit	Number of Years Audited
St. Cloud State University	193,695,000	Baker Tilly	9
Minnesota State University, Mankato	181,211,000	Kern, DeWenter & Viere	9
Winona State University	120,662,000	Kern, DeWenter & Viere	9
Minnesota State University Moorhead	88,744,000	Kern, DeWenter & Viere	9
Bemidji State University	76,130,000	Baker Tilly	9
Century College	65,250,000	Baker Tilly	8
Minneapolis Community & Technical College	64,235,000	LarsonAllen	8
Metropolitan State University	60,047,000	LarsonAllen	8
Normandale Community College	57,808,000	Kern, DeWenter & Viere	1
Rochester Community & Technical College	49,292,000	LarsonAllen	8
Minnesota State Community & Technical College	49,191,000	Baker Tilly	9
Southwest Minnesota State University	47,214,000	LarsonAllen	8
Hennepin Technical College	44,688,000	Kern, DeWenter & Viere	8

Other Audit Activities

A variety of other external audits, evaluations, and reviews occur. Accordingly, Internal Auditing monitors the results from the following activities and recommends corrective actions to the Chancellor, college and university presidents, or the Board of Trustees, as warranted.

- Legislative Auditor Financial Audits:** The Legislative Auditor conducted an internal control and compliance audit of St. Cloud State University that was released on June 15, 2010. The OLA had not audited a state university for about ten years and determined that it needed to have some coverage of at least one university. The Office of the Legislative Auditor conducted this audit on its own authority; it was not part of the services contracted for with the Office of the Chancellor.
- Legislative Auditor Program Evaluations:** In addition to its financial audit coverage, the Legislative Auditor may conduct periodic program evaluations, as selected by the Legislative

³ System-wide total operating expenses were \$1.7 billion for the year ended June 30, 2009.

Audit Commission. In February 2010, the Legislative Auditor released an evaluation on the “MnSCU System Office”.

- **Audits of Grants and Special Financing Arrangements:** Some special grant or other funding sources have certain audit requirements that must be satisfied. State law requires that the Legislative Auditor review any audit contracts prior to their execution. The most common source of these requirements is the Minnesota Job Skills Partnership (MJSP) grants. Because of the volume and routine nature of the MJSP grants, the Legislative Auditor has agreed to permit Internal Auditing to review those audit contracts on its behalf. Contracts for services which satisfy other unique audit requirements, such as an audit arranged by Itasca Community College for a housing project financed with bonds sold by a County Housing and Redevelopment Agency, must be submitted directly to the Legislative Auditor for review.
- **Reviews Conducted by State and Federal Student Financial Aid Authorities:** The Minnesota Office of Higher Education conducts periodic reviews of the state grant and loan programs being administered by the colleges and universities. Most colleges and universities are examined once every three years as part of that process. Internal Auditing reviews these reports to determine whether findings indicate more systemic issues needing attention. Also, the U.S. Department of Education conducts ad-hoc program reviews and investigations of federal financial aid programs. The department schedules its reviews using a risk assessment process and does not schedule routine reviews of each college and university.
- **Audits of Affiliated and Associated Organizations:** Board Policy 8.3 requires periodic financial audits of affiliated foundations. Also, other related organizations, such as the statewide student associations submit annual audited financial statements to the Office of the Chancellor. Internal Auditing reviews these audit reports and determines the need to recommend any action by the Chancellor, college and university presidents, or the Board of Trustees.

Future Audit Coverage Considerations

- **College and University Internal Control and Compliance:** By mutual agreement, the contractual arrangement with the Office of the Legislative Auditor to conduct internal control and compliance audits of colleges that do not have financial statement audits is ending.

An internal control and compliance audit conducted on St. Cloud State University by the Office of the Legislative Auditor was presented to the Audit Committee at the June 15, 2010 meeting. The Audit Committee was challenged to consider the following questions:

- To what extent shall colleges and universities conduct risk assessments to examine the effectiveness of their internal controls?
- To what extent should the Board of Trustees rely on the work of the CPA firms who audit the system-wide and institutional financial statements for assurances about internal controls?

It is an appropriate time for the Board of Trustees to reflect on the best approach for obtaining audit coverage on internal control and compliance within the System. In order to obtain college and university internal control and compliance audit coverage in fiscal year 2011, a decision will need to be made in September 2010 on the scope and how to obtain audit coverage.

- **College and University Financial Statement Audit Coverage:** At the Audit Committee's June 2010 meeting Mr. James Nobles, the Legislative Auditor, challenged the Audit Committee to consider the value and role of obtaining annual financial statement audits for individual colleges and universities⁴. He based his challenge, in part, on questioning whether there were external audiences for whom these audits were prepared.

The Audit Committee revisits the external audit plan each year, before authorizing audit contracts to be renewed. The next review is expected to occur in January 2011.

- **Information Technology:** Information technology (IT) controls are subject to basic audit coverage as part of the annual audit of the system-wide financial statements. This IT audit coverage does not, however, address broader IT risks related to operations. In prior years, the Legislative Auditor had been able to supplement that coverage and conduct periodic audits of higher risk IT operational areas. Staffing turnover, though, has limited the IT audit capacity of the Legislative Auditor and it has not examined MnSCU IT controls since 2006. Since that time, IT operations have undergone significant structural changes and have taken on increased organizational importance.

In November 2009, the principal MnSCU external auditor included an observation in their management letter citing that comprehensive risk-based IT audits of ITS business functions and systems have not been performed since the Legislative Auditor's withdrawal of IT audit resources from MnSCU.

During calendar year 2009, Internal Auditing completed an internal self-assessment and released the results in a report dated January 4, 2010. A recommendation in the self assessment was the Office of Internal Auditing should develop a process for assessing information technology risks and planning IT audits.

The extent, timing, and resources of audit coverage for information technology areas has not been determined. An audit plan for IT areas could either be incorporated into the annual internal auditing plan or created as a more strategic long-term plan, similar to the approach taken for external auditors.

Date Presented to the Board of Trustee: August 19, 2010

⁴ The annual audit of the system-wide financial statements is not subject to discretion. It is required in order to support the preparation of the State of Minnesota financial statements. If the institutional financial statement audits were discontinued, the audit fees for the system-wide audit would increase dramatically.

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: August 19, 2010

Agenda Item: Selection of Committee Priorities

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

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

Chair Scott Thiss has requested that in September each committee bring forward one to three goals that they have selected for further study, along with completion dates and a deliverable that can be measured for each goal.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing

Background Information:

- At the July 20, 2010 Board of Trustees study session, Chair Scott Thiss shared the results of his discussions with all of the Board members that resulted in the creation of a list of issues and goals for the Board standing committees.

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

BOARD ACTION
SELECTION OF COMMITTEE GOALS

BACKGROUND

Below are the Audit Committee issues and goals that Chair Scott Thiss shared with the trustees in July.

- Clear past findings; resolve audit findings
- Coordinate OLA Response to Legislative Audit Commission (LAC)
- Significant deficiency: ISRS security
- Credit Card Policy recommendation
- Do we need 13 certified audits
- IT Strategic Audit approach

One additional issue that needs to be considered is the decision that needs to be made on internal control and compliance audit coverage for the future.

RECOMMENDED COMMITTEE ACTION

The Audit Committee recommends the following committee goals:

1. _____
2. _____
3. _____

Date Presented to the Board of Trustee: August 19, 2010

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: August 19, 2010

Agenda Item: Discussion of Office of Internal Auditing Issues and Priorities for Next Budget

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

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

The Office of the Chancellor is in the process of determining budget cuts for fiscal years 2011 and 2012. Board Policy 1A.2, Part 5, Subpart E, states that the Office of Internal Auditing reports directly to the audit committee and it is charged with oversight of internal and external audits.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing

Background Information:

- Office of Internal Auditing absorbed a 15% budget reduction from its fiscal year 2009 base budget.
- Priorities established by the audit committee may have implications on the Office of Internal Auditing budget.

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

BOARD INFORMATION

**DISCUSSION OF OFFICE OF INTERNAL AUDITING ISSUES AND
PRIORITIES FOR NEXT BUDGET**

BACKGROUND

For Fiscal Year 2010, the Office of Internal Auditing abided by the budget process for the Office of the Chancellor. Because of the dire economic conditions facing state government and the resulting reduction in state appropriations to the Minnesota State Colleges and Universities, the Office of Internal Auditing absorbed a 15% budget reduction from its fiscal year 2009 base budget. The office absorbed this cut by:

- eliminating consulting services and focusing on core assurance services, and
- sharing a data analysis position with the Information Technology Services division.

The Office of the Chancellor is faced with making additional budget cuts for fiscal year 2011 and 2012.

Date Presented to the Board of Trustee: August 19, 2010

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: August 19, 2010

Agenda Item: Status of the Office of the Legislative Auditor's Program Evaluation

Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring

Information

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

Former Board Chair David Olson requested that the Audit Committee monitor progress toward resolving the findings cited by the Legislative Auditor in its February 2010 report, *MnSCU System Office*.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- This program evaluation focused on questions regarding the size and performance of the central administrative office of the Minnesota State Colleges and Universities.

Background Information:

- This evaluation was conducted at the request of Chancellor McCormick and former Board Chair David Olson and with the approval of the Legislative Audit Commission.
- The report was released publicly in February 2010 and contained twelve recommendations.
- Former Board Chair David Olson based on advice from former Audit Committee Chair Scott Thiss referred the evaluation recommendations to various board committees for review and resolution.

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

BOARD INFORMATION
STATUS OF THE OFFICE OF THE LEGISLATIVE AUDITOR'S PROGRAM EVALUATION

BACKGROUND

An updated status report will be distributed at the Audit Committee meeting on August 19, 2010. Copies of the program evaluation report are available on the Office of the Legislative Auditor Web site at <http://www.auditor.leg.state.mn.us/PED/2010/mnscu.htm>

Date Presented to the Board of Trustee: August 19, 2010

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: August 19, 2010

Agenda Item: Roles and Responsibilities of the Audit Committee

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

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

Board Policy 1A.2, Part 5, Subpart E stipulates that the audit committee members “receive training annually on their auditing and oversight responsibilities.”

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- Summary of Board Policies pertaining to the Audit Committee
- Highlights key elements of audited financial statements that audit committee members are scheduled to review at its November 2010 meeting.

Background Information:

- Audit committee members will be provided with final draft copies of the financial statements about one week prior to the November committee meeting. In addition, a one-page trends and highlights summary document will be included with each set of statements.

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

BOARD INFORMATION

ROLES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

BACKGROUND

The audit committee is responsible for overseeing the complex, technical work of external and internal auditing. Board Policy 1A.2, Part 5, Subpart E requires annual training for audit committee members to prepare them for carrying out their oversight responsibilities.

This training session will familiarize members with board policies that relate to the audit committee and the Office of Internal Auditing. Specific policies that members should be aware of are:

- 1A.2 Board of Trustees, Part 5, subpart E
- 1C.2 Fraudulent or Other Dishonest Acts
- 1D.1 Office of Internal Auditing

Board policies are located at (<http://www.mnscu.edu/board/policy/>) and are attached for your convenience.

In addition, this training session is intended to prepare members for the process of reviewing the audited financial statements. In November 2010, the audit committee will review the audited financial statements for the MnSCU system, its Revenue Fund, and 13 of the largest colleges and universities. The attached checklist is intended to facilitate the review of those financial statements.

Date Presented to the Board of Trustee: August 19, 2010



Minnesota State Colleges and Universities
Board Policies
Chapter 1 - System Organization and Administration
Section A - System & Office Operations

1A.2 Board of Trustees

Part 5. Standing Committees, Committees, and Working Groups of the Board.

Subpart E. Audit Committee. The audit committee of the board consists of no fewer than three members to be appointed by the chair of the board annually. The committee shall meet at the call of its chair. The audit committee is charged with oversight of internal and external audits of all system functions including individual campus audits. The board may hire an executive director of internal auditing and other auditors who shall report directly to the committee and the board. Committee members shall receive training annually on their auditing and oversight responsibilities.

The audit committee is responsible for overseeing the service of internal and independent auditors. Policy 1D governs the Office Internal Auditing. The committee has the following responsibilities for independent auditors:

1. Oversee the process for selecting independent auditors. The committee shall select one or more independent auditors to audit system-level or institutional financial statements and recommend their appointment to the board. An independent audit firm may not be appointed to a particular engagement for more than six consecutive years.
2. Review any non-audit services proposed by independent auditors under contract for audit services. The board must approve in advance any non-audit services to be provided by independent auditors under contract for audit services unless the scope of non-audit services is completely distinct from the scope of the audit engagement.
3. Review and discuss the results of each audit engagement with the independent auditor and management prior to recommending that the board release the audited financial statements.

Date of Implementation: 03/21/95

Date of Adoption: 03/21/95



Minnesota State Colleges and Universities
Board Policies
Chapter 1 - System Organization and Administration
Section C - Code of Conduct & Ethics

1C.2 Fraudulent or Other Dishonest Acts

Part 1. Purpose. MnSCU is committed to creating an environment where fraudulent and other dishonest acts are not tolerated. All MnSCU employees are responsible for complying with the State Code of Ethics (Minnesota Statutes Section 43A.38), other state statutes and board policies that govern their conduct, and ensuring that all resources entrusted to them are used ethically, prudently, and for their designated purpose. In addition, to ensure that MnSCU resources are used appropriately, managers and supervisors are responsible for educating employees about proper conduct, creating an environment that deters dishonesty and maintaining internal controls that provide reasonable assurance of achieving management objectives, and detecting dishonest acts. Furthermore, managers and supervisors must be cognizant of the risks and exposures inherent in their area of responsibility and be aware of symptoms of fraudulent or dishonest acts, should they occur. This policy establishes responsibilities for investigating potential incidents of fraud or other dishonest acts, taking remedial actions, and reporting evidence to the Legislative Auditor and other appropriate authorities.

Part 2. Applicability. This policy applies to all MnSCU trustees and, employees, including faculty (full-time, adjunct and part-time faculty), administrative staff, and student employees. It also requires employees to report the actions of other parties that may result in financial losses or possible criminal conduct affecting MnSCU resources or information. These other parties include (1) students; (2) contractors and vendors; (3) organizations affiliated with MnSCU, including foundations governed by MnSCU policy 8.3; and (4) any other person or organization that uses MnSCU resources or information, with or without authorization.

This policy does not apply to destruction or misappropriation of personal or private property. Those matters shall be reported to appropriate college, university, or Office of the Chancellor officials and to law enforcement officials when appropriate. Also, substantiated violations involving personal or private property are subject to personnel action or discipline under the student conduct code.

This policy does not apply to allegations of academic misconduct. Those matters shall be referred to appropriate college or university officials.

This policy also does not apply to allegations of discrimination or harassment. Those matters are governed by MnSCU policy 1.B.1.

Part 3. Definitions.

Subpart A. Dishonest act. A dishonest act generally involves a deliberate act or failure to act with the intention of obtaining an unauthorized benefit, destruction of property or otherwise fraudulent behavior. Dishonest acts include, but are not limited to:

- Theft or misappropriation of funds, long distance telephone services, supplies, property, computer software, intellectual property, or other resources;
- Forgery or alteration of documents;
- Bribery or attempted bribery;
- Unauthorized use of records or access to information systems, including unauthorized sharing of computer security clearances;
- Unauthorized alteration, manipulation, or destruction of computer files and data;
- Falsification of reports to management or external agencies;
- Conflicts of interest that pursue a personal benefit or advantage while compromising the public interest;
- Improper handling or reporting of financial transactions;
- Authorizing or receiving compensation for goods not received or services not performed;
- Authorizing or receiving compensation for hours not worked;
- Incurring obligations in excess of appropriation authority, and
- Willful violation of laws, regulations or policies, or contractual obligations when conducting MnSCU business.

Subpart B. Fraud Inquiry. A fraud inquiry is the initial process for examining complaints, allegations, and other possible evidence of dishonest acts. The objective of a fraud inquiry is to determine whether sufficient evidence exists to warrant a fraud investigation.

Subpart C. Fraud Investigation. A fraud investigation is the process of collecting and examining evidence to determine whether a dishonest act involving possible criminal action or significant financial loss has occurred.

Part 4. Responsibilities.

Subpart A. Compliance. Dishonest acts are prohibited pursuant to this policy and applicable law. Employees found to have committed a dishonest act as defined by this policy shall be subject to sanctions, restitution and other remedies as deemed appropriate by MnSCU officials.

Subpart B. Employee reporting of suspected fraudulent or other dishonest acts. An employee with a reasonable basis for believing fraudulent or other dishonest acts have occurred has a responsibility to report the suspected act in a timely manner. Reports should be made to the employee's immediate supervisor or manager, unless the employee suspects that the supervisor or manager has participated in or condoned the act. In that case, the employee should report the matter to the next highest level of supervision or management or directly to the college, university, or Office of the Chancellor Director of Human Resources. Employees are encouraged to report matters through their designated college, university or Office of the Chancellor channels, but may report any matters directly to the MnSCU Office of Internal Auditing. This policy shall not prohibit prompt notification to appropriate authorities when an

immediate threat to personal safety exists or other circumstances justify such notice. Upon discovering evidence of possible fraudulent or dishonest acts, employees should not confront individuals suspected of wrongdoing or initiate fraud investigations on their own because such actions may compromise any ensuing investigation. Employees shall not make statements or disclosures knowing they are false or in reckless disregard of the truth.

Subpart C. Conducting a fraud inquiry. Presidents, the Chancellor, or the Executive Director of Internal Auditing shall be responsible for conducting fraud inquiries to determine whether evidence of fraudulent or other dishonest acts is substantiated and merits a fraud investigation or other remedy. Presidents or the Chancellor may seek the assistance of the Office of Internal Auditing in conducting fraud inquiries. If a fraud inquiry reveals evidence of possible criminal action or significant financial loss, then a fraud investigation shall be conducted pursuant to Part 4, Subpart D of this policy. If a fraud inquiry does not reveal evidence of possible criminal actions or significant financial loss related to a dishonest act, but substantiates a violation of state or federal law, MnSCU or college or university policies, or other applicable requirements, the matter shall be referred to the appropriate campus or Office of the Chancellor official for further action. Any incident that reveals possible employee misconduct may be subject to a personnel investigation by the college, university, or Office of the Chancellor, as appropriate, and subject to personnel action in accordance with the provisions of the applicable collective bargaining agreement or other personnel plan.

Subpart D. Conducting a fraud investigation. If it is determined under Part 4, Subpart C that a fraud inquiry merits a fraud investigation, the president or Chancellor shall report the matter to the Office of Internal Auditing. The president or Chancellor shall consult with the Executive Director of Internal Auditing to determine responsibilities for conducting the fraud investigation. The MnSCU General Counsel, the Legislative Auditor, or other administrative officials also shall be consulted, as appropriate and when required by this policy.

Part 5. Remedial Actions. If a fraud investigation substantiates that a violation has occurred, the following remedial actions against or by MnSCU employees shall be taken as appropriate:

Subpart A. Recovery of Losses. Appropriate action will be taken to recover assets lost as a result of an act of dishonesty. Full recovery will constitute the value of benefits gained by an employee or beneficiary other than MnSCU or the documented loss, whichever is larger, and, if appropriate, the cost of investigation, recovery, or other costs. For misuse of long-distance telephone services, recoveries must include the fair market value of the service, taxes, and interest. All reasonable means, consistent with state law, will be sought to recover losses, including voluntary repayments, withholding from salary and wages, insurance proceeds when applicable, and legal action when necessary. Significant financial losses shall be reported to the Vice Chancellor - Chief Financial Officer. Dishonest acts that result in significant loss or damage to electronic information or information systems shall be reported to the MnSCU Chief Information Officer. The MnSCU General Counsel shall determine whether the evidence available and the cost of recovery justify legal action to recover losses.

Subpart B. Referral to Law Enforcement. A college, university or Office of the Chancellor shall consult with the MnSCU General Counsel prior to disclosing private or confidential data

on employees to law enforcement authorities pursuant to Minnesota Statutes section 13.43, subd. 15.

Subpart C. Internal Control Deficiencies. The Office of Internal Auditing shall consider whether evidence of possible fraudulent or other dishonest acts reveals areas or practices in college, university, or system internal controls needing modification. The Office of Internal Auditing shall recommend corrective actions to the president or chancellor, as appropriate, and the Vice Chancellor – Chief Financial Officer. Internal Auditing shall follow-up on its recommendations and report progress to the board of trustees consistent with procedures for audit follow-up.

Subpart D. Employee Disciplinary Actions. Employees found to have participated in fraudulent or other dishonest acts, or any employee who hinders a fraud inquiry or investigation by making a false or misleading statement, or any employee who has knowledge of a dishonest act, but fails to report it according to this policy shall be subject to disciplinary action. The appropriate campus official or Vice Chancellor for Human Resources shall determine whether employee disciplinary action is warranted. The provisions of collective bargaining agreements shall be observed for any employee disciplinary proceedings.

Part 6. Data Practices. Fraud inquiry or investigation data must be handled in accordance with the Minnesota Government Data Practices Act and other applicable law.

Part 7. Whistleblower Protection. Employees who report suspected fraudulent or other dishonest acts pursuant to Minnesota Statutes Section 181.932 shall be protected from retaliation. The identity of information sources shall be protected when required by Minnesota Statutes Section 181.932 or Minnesota Statutes Section 13.392.

Part 8. Other Policies. This policy shall not be construed to limit the ability to enforce any other applicable policy or law not incorporated under this policy or to limit the remedies available for violations that occur.

Part 9. Reporting To The Board Of Trustees And The Legislative Auditor. The Executive Director of Internal Auditing shall notify the Board of Trustees of any significant violations of law or board policies, as required by board policy 1D, or any material departures from this policy.

The Executive Director of Internal Auditing is responsible for reporting evidence to the Office of the Legislative Auditor as required by Minnesota Statutes Sections 10.47, 43A.39, and 609.456, Subdivision 2 and, if federal funds are involved, to the responsible federal authority. Employees who have reported evidence according to the provisions of this policy will have fulfilled their statutory reporting obligations for reporting to the Office of the Legislative Auditor.

Date of Implementation: 06/19/02
Date of Adoption: 06/19/02



Minnesota State Colleges and Universities
Board Policies
Chapter 1 - System Organization and Administration
Section D - Office of Internal Auditing

1D.1 Office of Internal Auditing

Part 1. Mission. The Office of Internal Auditing provides independent and objective assurance and consulting services designed to add value and improve MnSCU colleges and universities and their supporting systems.

Part 2. Values And Principles. Internal Auditing assists the Board of Trustees, Chancellor, presidents, and all other levels of management in accomplishing objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes, such as policies, practices, procedures, organizational structures, goals and objectives, information systems, and programs.

The Office of Internal Auditing is committed to:

- Supporting the success of public higher education (student success and learning),
- Practicing with integrity, honesty, and objectivity.
- Complying with professional and ethical standards
- Protecting confidentiality of information
- Conveying results first to appropriate management (no public surprises) and as necessary to other stakeholders
- Promoting accessibility to internal auditing services, both geographically and by fostering relationships with campus personnel
- Understanding the unique needs of individual institutions
- Maintaining excellence through innovative and proactive methodologies, professional development, and continuous learning.
- Celebrating success.

Part 3. Vision Statement. The Office of Internal Auditing is a catalyst for improvement.

Part 4. Services. Internal Auditing shall be an advocate to improve and maintain accountability and promote the proper management oversight of system office and college and university programs and activities. Internal Auditing is intended to complement, and not replace, other services available either on campuses or in the system office. It has particular expertise in topics such as auditing, accounting, internal controls, financial risk management, and organizational development. When dealing with matters outside its expertise, Internal Auditing shall seek the assistance of other experts in the organization or obtain external consultative services, if necessary. It offers the following types of services in order to assist the Board of Trustees, Chancellor and presidents in accomplishing their objectives and in improving operations.

- a) **Assurance Services** consist of examinations designed to inform interested stakeholders about the reliability and accuracy of information and information systems. System-wide topics may be selected by formal action of the Board of Trustees. Internal Auditing may also enter into agreements to conduct special studies requested by the Chancellor or a president. Studies may focus on (1) compliance with board policies, laws, and regulations, (2) reliability of information, (3) economy and efficiency of operations, (4) effectiveness in meeting goals and objectives, or (5) safeguarding of assets. Internal Auditing shall coordinate all audit-related activities conducted by the Legislative Auditor and external auditors within MnSCU. Internal Auditing must follow-up on audit findings generated by either internal or external audits and ensure that findings are satisfactorily resolved.
- b) **Fraud Inquiry and Investigation Support Services** are intended to augment the efforts of colleges and universities to ensure that evidence of fraud or dishonest acts is investigated professionally and promptly. Internal Auditing shall look to legal counsel for leadership on any issues that may involve criminal action or reveal potential legal exposures. It is recognized that these matters must be reported to the Legislative Auditor as required by state law.
- c) **Consulting Services** may be provided at the request of presidents, the Chancellor, or senior administrative officials, subject to the availability of resources and internal auditing expertise. These services are characterized by an identified need for improvement, a spirit of partnership and collaboration between requestor and Internal Auditing, and a focus on organizational learning. They require management's leadership and commitment, allocation of time and other resources, and may include phasing of efforts to accommodate schedules and requestor's needs. Internal Auditing provides organizational expertise, data gathering and facilitation services to expedite desired changes.
- d) **Professional Advice** shall promote an understanding and implementation of state laws and rules, federal laws and regulations, board policies and procedures, professional accounting and auditing standards, and best practices in management and organizational development. Advice may be communicated in response to questions for which Internal Auditing has expertise, through availability of self-assessment tools, by broadly relaying or publicizing information on selected topics, or by offering workshops or seminars.

Part 5. Authority And Responsibilities. Internal Auditing has the authority to audit all parts of MnSCU and is granted full and complete access to all MnSCU records (manual or electronic), physical properties and personnel relevant to any services provided according to this policy. Access is also granted, by contract, to relevant records of all MnSCU related foundations, contractors, and partners. Documents and information given to internal auditors shall be handled in compliance with provisions of the Minnesota Government Data Practices Act.

Internal Auditing shall have no direct authority over or responsibility for any of the activities or operations they review. Unless extenuating circumstances dictate, internal auditors should not develop and install procedures, prepare records or engage in activities which would normally be reviewed by Internal Auditing. Internal Auditing may review proposed systems and processes prior to implementation to assure adequate controls will exist.

Part 6. Organization. The Executive Director of Internal Auditing reports directly to the Board of Trustees through the Chair of the Board of Trustees Audit Committee. The Chancellor will handle

matters related to audit departmental operations in consultation with the Chair of the Audit Committee.

The Executive Director of Internal Auditing shall present to the Audit Committee a system-wide risk assessment and audit plan for each fiscal year. The plan shall include all Internal Auditing and external audit activities planned for the ensuing fiscal year. The Executive Director shall report any significant changes to the audit plan throughout the year.

The Executive Director has direct and unrestricted access to the Board of Trustees. The Executive Director has the right and responsibility to report to the Trustees any circumstances that are significant violations of MnSCU controls, policies or procedures and any other matters that the Executive Director believes warrant Trustee notification. Internal Auditing is a function shared with the Chancellor and the presidents. Therefore, the Executive Director has the right and responsibility to report any matters to the Chancellor and presidents that warrant their notification or assist them in improving their operations.

Part 7. Internal Auditing Data. As required by Minnesota Statutes Section 13.392, Subdivision 1, data notes, and preliminary drafts of reports created, collected, and maintained by Internal Auditing are confidential data on individuals or protected nonpublic data while work is in progress. The final report is public data, except as provided under the Minnesota Government Data Practices Act.

Also, as required by Minnesota Statutes Section 13.392, Subdivision 2, data on an individual supplying information for an audit or investigation that could reasonably be used to determine the individual's identity, are private data on individuals if the information supplied was needed for an audit or investigation and would not have been provided to Internal Auditing without an assurance to the individual that the individual's identity would remain private.

Part 8. Reporting. Internal Auditing reports resulting from services requested by the Audit Committee shall be distributed to members of the Board of Trustees. Copies of these reports also shall be distributed to management as appropriate. The Executive Director shall enter into an agreement with the Chancellor, other senior administrative official, or a president to direct the distribution of Internal Auditing reports resulting from services not requested by the Audit Committee. Such reports shall be distributed to the Board of Trustees if the circumstances that are cited in Part 5 of this policy are revealed.

The Executive Director shall present periodic follow-up reports to the Audit Committee that shows progress toward implementing internal and external audit findings previously reported to the committee.

The Executive Director shall present an annual report to the Audit Committee that shows the results of audits conducted during the previous fiscal year, including a summary of significant audit results.

Date of Implementation: 07/19/00

Date of Adoption: 07/19/00

Financial Statement Audits Checklist

Introduction

One of the most important responsibilities of the audit committee is to serve as “gatekeeper” for the release of financial statements. These financial statements are used by fiscal analysts that evaluate the credit worthiness of the State of Minnesota and the Minnesota State Colleges and Universities. Other users include potential donors, legislators, faculty and student unions, and other interested stakeholders. This checklist is designed to highlight the important aspects of the audited financial statements to be reviewed.

- I. Reports from the external auditor.** These reports consist of the Independent Auditor’s Report (which precedes the financial statements) and the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Audit Standards (which follows the notes to the financial statements). External auditors also may issue a separate letter to the committee that provides findings and recommendations related to internal controls and compliance.

YES NO

- | | | |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | Does the <u>Independent Auditor’s Report</u> cite any departures from Generally Accepted Accounting Principles? |
| <input type="checkbox"/> | <input type="checkbox"/> | Does the <u>Independent Auditor’s Report</u> cite any limitation on applying Generally Accepted Auditing Standards? |
| <input type="checkbox"/> | <input type="checkbox"/> | Does the <u>Report on Internal Control and Compliance...</u> cite any exceptions noted as material weaknesses or significant deficiencies? |
| <input type="checkbox"/> | <input type="checkbox"/> | Does the <u>Report on Internal Control and Compliance...</u> cite any instances of non-compliance? |
| <input type="checkbox"/> | <input type="checkbox"/> | Has the auditor communicated any disagreements with management or difficulties encountered during the audit? |
| <input type="checkbox"/> | <input type="checkbox"/> | Has the auditor communicated any significant audit adjustments made to the financial statements? |

If any there is an affirmative answer to any of these questions, more information must be obtained to evaluate the consequences of the issue.

II. Basic Financial Statements and Trends. The basic financial statements include the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. In addition, a Management Discussion & Analysis (MD&A) section of the financial report is designed to highlight the core business activities of the organization. Based on the basic statements and MD&A, are there noteworthy trends in any of the following [Note: additional guidance will be provided to assist with evaluating these financial trends.]:

YES NO

- | | | |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | Tuition and Fees |
| <input type="checkbox"/> | <input type="checkbox"/> | State Operating and Capital Appropriations |
| <input type="checkbox"/> | <input type="checkbox"/> | Employee Compensation |
| <input type="checkbox"/> | <input type="checkbox"/> | Federal and State Financial Aid Programs |
| <input type="checkbox"/> | <input type="checkbox"/> | Capital Asset Construction and Maintenance |
| <input type="checkbox"/> | <input type="checkbox"/> | Auxiliary Operations, such as bookstores, residence halls, and food services |
| <input type="checkbox"/> | <input type="checkbox"/> | Unrestricted Net Asset Balances (Check the primary reserve ratio disclosed in the MD&A section for adequacy) |

If any there is an affirmative answer to any of these questions, more information must be obtained to evaluate the consequences of the issue.

III. High Risk Transactions. The notes to the financial statements explain the accounting methods used to prepare the financial statements and must highlight any transactions that have a significant impact. The notes are a good source for further information on high risk transactions. Some transactions present greater challenges and, thus, risks to the quality of financial reporting. Are there disclosures on the following issues:

YES NO

- | | | |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | Prior Period Adjustments |
| <input type="checkbox"/> | <input type="checkbox"/> | Significant joint ventures, alliances, and partnerships |
| <input type="checkbox"/> | <input type="checkbox"/> | Contingent Liabilities Resulting from Litigation |
| <input type="checkbox"/> | <input type="checkbox"/> | Related Party Transactions |
| <input type="checkbox"/> | <input type="checkbox"/> | Subsequent Events. |

If any there is an affirmative answer to any of these questions, more information must be obtained to evaluate the consequences of the issue.