

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES  
AUDIT COMMITTEE  
MEETING MINUTES  
June 15, 2010**

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***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 and Terri Thomas.*

***Leadership Council Committee Members Present:** Chancellor McCormick, John Asmussen, Linda Baer, Laura King, Gail Olson, President Pat Johns and President Earl Potter.*

The Minnesota State Colleges and Universities Audit Committee held its meeting on June 15, 2010, at Wells Fargo Place, 4<sup>th</sup> Floor Board Room, 30 East 7<sup>th</sup> Street in St. Paul. Chair Thiss called the meeting to order at 8:58 a.m.

**Approval of the Audit Committee Meeting Minutes**

*Chair Thiss called for a motion to approve the May 19, 2010 Audit Committee meeting minutes. There was no dissent and the motion carried. Trustee McElroy called for a motion to suspend the rules to allow action on the Minutes of June 7, 2010 which were not previously posted on the agenda. Trustee Van Houten seconded and there was no dissent. Chair Thiss called for a motion to approve the June 7, 2010 Special Audit Committee meeting minutes. There was no dissent and the motion carried.*

**1. Appointment of Executive Director of Internal Auditing (Action Item)**

Committee Chair Scott Thiss complimented and thanked Dr. John Asmussen for his career and service to the Audit Committee as the Executive Director of Internal Auditing. He stated that he would be missed, but that the committee extended their best wishes for his future endeavors.

Trustee Thiss stated that with the retirement of Dr. Asmussen, a national search was conducted for the position by a search advisory committee commissioned by Chancellor McCormick. Trustee Thiss reminded the committee that the position reported through the audit committee to the Board. The search advisory committee screened initial candidates. The audit committee then interviewed the finalists and was pleased to bring forward the name of Ms. Beth Buse, to be recommended for consideration as Executive Director of Internal Auditing.

Trustee Thiss stated that Ms. Buse had been the Deputy Director of Internal Auditing since January 1998 and had led important projects such as the recent internal auditing student of student credit transfer. Ms. Buse had served on numerous system

committees and working groups, including Students First and the Office of the Chancellor Diversity Committee. Prior to this, she worked as Senior System Development Auditor with Norwest Audit Services and Audit Director with the Minnesota Office of the Legislative Auditor. Ms. Buse held a Bachelor of Science Degree in Accounting from St. Cloud State University and was Certified Public Accountant as well as a Certified Information System Auditor, a Certified Internal Auditor, and held a Global Information Assurance Certification – Security Essentials Certification. Ms. Buse was a member of the current Luoma Leadership Academy Cohort. She had been a leader in professional organizations, notably serving as the past president of the Twin Cities Chapter of Information System Audit and Control Association and she has been an active member of EDUCAUSE, Higher Education Information Security Council Governance, Risk, and Compliance Working Group.

*Trustee Thiss made the motion, Trustee McElroy seconded. The Audit Committee recommends that the Board of Trustees approve the following motion:*

**RECOMMENDED MOTION**

*The Board of Trustees appoints Beth Buse as executive director of internal auditing in the Office of the Chancellor effective July 21, 2010.*

**2. Review OLA Audit of St. Cloud State University (Information Item)**

Trustee Thiss introduced Mr. James Nobles, Legislative Auditor. Mr. Nobles began by acknowledged the good work that Dr. Asmussen had done during his service in state government. He noted that both Dr. Asmussen and Ms. Buse had worked for the Office of the Legislative Auditor at one point in each of their careers and joked that the Office of the Legislative Auditor took pride in providing such high quality people to the Minnesota State Colleges and Universities.

Mr. Nobles began the presentation of the St. Cloud State University audit report by stating that the internal controls at the university were adequate, and that generally the university had complied with finance related legal requirements and Board policies. However, he noted that the report contained seventeen findings.

Mr. Nobles reviewed finding one; St. Cloud State University did not adequately assess its business risks or monitor the effectiveness of its internal controls. He stated that within the public sector GAAP based (generally accepted accounting principles) financial statements had become an important element of accountability. But he further stated that the Office of the Legislative Auditor did not feel that that the controls which ensured against material misstatements on a financial statement were adequate in the public sector. He suggested that the university should ensure that controls were adequate even for items that might not be material to the financial statement.

Trustee McElroy asked if GAAP based financial reporting was not a sufficiently rigorous standard in the public sector, to what standard should the system audit. Mr. Nobles stated that in addition to looking at the standards, the system should audit to the comfort level of the governing board. Trustee McElroy stated that the finding seemed to be a departure of how audits normally work. He expressed discomfort with the idea of the Board of

Trustees setting its own standards or auditing to the standard of perfection. He added that the issue of materiality needed further discussion. Mr. Nobles stated that the Board made a policy choice to invest resources to have institutions develop financial statements and to have those financial statements audited. He added that in his view it did not bring the system to an adequate level of controls.

Trustee McElroy stated that the committee appreciated the work of the Office of the Legislative Auditor in identifying findings and areas of concern, but he expressed concern about the system requiring a standard of internal controls that was higher than those set by other bodies. Mr. Nobles stated that all agencies of state government, through the Minnesota Commissioner of Management and Budget were required to meet standards, internal controls that went beyond what would be required from a financial statement audit.

Trustee Van Houten stated that the Office of the Legislative Auditor had audited the system in the past and there had never been criticism of the process in terms of external auditors reviewing the twelve largest campuses and using those to identify systemic issues. He added that the audit period at St. Cloud State University overlapped two other audits by external auditors. Those audits were given a charge, were carried out, and were accepted by the Audit Committee. The Office of the Legislative Auditor had not criticized those audits when the system level audit was conducted. Trustee Van Houten asked how the guidance provided by the Office of the Legislative Auditor would change the system charge to the external auditors. He stated that it was important to understand the standards suggested by the Office of the Legislative Auditor. Mr. Nobles stated that there had been no criticism in the past because the external auditors auditing the financial statements had done a fully competent job. But he added that the objectives were different. He stated that a complete adequate audit plan would contain both audit strategies, if that was what the Audit Committee wanted to do, but he suggested that the committee should consider reviewing the value in continuing to do financial statement audits. Trustee Van Houten stated that the system has had both types of audits, and he cited past comments by external auditors about credit card errors and concerns. Trustee Van Houten stated that there was still uncertainty about the implications of the audit charge to the external auditors and he suggested that the committee further discuss the topic. Trustee Thiss agreed.

Dr. Asmussen agreed with Mr. Nobles assertion that auditing to the financial statements was not adequate and he stated that the Office of Internal Auditing has never been satisfied simply auditing to the financial statements. He stated that as part of the annual audit plan the system has hired the Office of the Legislative Auditor to audit on a cyclical basis, a number of small colleges that were not material to the system financial statements. In addition, the work of the Office of the Internal Auditing and the work of the Finance Department had elements that went far beyond the base requirement. He stated that the committee would need to decide how far the audit plan should extend to be satisfied with the level of assurance.

Dr. Asmussen stated that the large comprehensive universities introduce a different set of challenges. He added that it was not as easy to simply select additional areas to audit based on a financial materiality standpoint. He stated that there may be other techniques

beyond risk assessment, such as training and self assessment techniques.

Ms. Laura King, Chief Financial Officer, agreed with Dr. Asmussen and stated that with the Audit Committee's guidance, a risk management environment had been designed in the past, and she suggested that there might be value in looking at that environment to understand all the elements. She also stated that it had not been the Board's desire to rely solely on audited financial statements, nor had it been the strategy that was deployed. Trustee Thiss agreed and stated that the report provided great material to encourage the committee to reexamine, make some decisions and move forward.

Trustee Van Houten stated that he would welcome more deliberation on the topic and expressed concerns about the cost benefit relationship with doing more in depth audits at the larger institutions.

Mr. Nobles complimented the Minnesota State Colleges and Universities for the seriousness to which it took accountability and financial management. He stated that the Board did an outstanding job and consistently demonstrated its commitment. He further stated that the Office of the Legislative Auditor had jurisdiction, responsibility and authority to audit the Minnesota State Colleges and Universities in any way it decided, aside from whatever the Board decided. Trustee Thiss acknowledged that jurisdiction and stated that audit reports continued to be viewed as opportunities for continuous improvement. He added that the committee would continue the discussion.

Mr. Nobles presented finding three; St. Cloud State University and the Office of the Chancellor did not promptly intervene when the St. Cloud State University Foundation inappropriately claimed that it had secured the exclusive commercial rights to the university's athletic facilities and programs and contracted with a marketing firm to sell those rights. He stated that a somewhat quicker, more decisive action was called for because this was a serious issue with potential hazards in terms of liabilities. He stated that their recommendation was that the system office and the university should watch the relationship with the foundations carefully and step in when necessary.

Trustee Thiss agreed that the foundations associated with the state universities were larger and played a more significant role, vs. foundations for the two year colleges. And he stated that the issue had far reaching implications. Dr. Asmussen agreed and stated that the finding provided leverage to offer reminders to the universities and to the college foundation directors as well, to keep a close eye on the foundations. He stated that it was a powerful lesson and that he had recently talked about the principle of intervention at a training conference for the foundation directors and he reminded them that they had responsibility to intervene and watch out for the best interest of the colleges and universities. Dr. Asmussen stated that he would ensure that the finding was sent out and used as a sound reminder of good practice.

Chancellor McCormick asked if presidents should take these kinds of issues to the internal auditor or if it were a legal question for legal counsel. Ms. Gail Olson, Legal Counsel, stated that legal council should be involved. She added that in this instance, the university was working closely with attorneys at the Attorney General's Office on an agreement between the university and the foundation which should have been done

before the other agreement was entered into. She added that the parties thought that this university agreement was imminent and that was what caused the delay and actually taking action with the foundation. It turned out to be a longer negotiation process than anyone anticipated. But it was something all of the parties involved see that they should have been more attentive to at the time.

Mr. Nobles introduced Mr. Dave Poliseno who was the Audit Manager for the St. Cloud State University Audit. Mr. Poliseno recognized Mr. Tim Rekow who was the auditor in charge. Mr. Poliseno reviewed finding number four; the university did not adequately restrict employees' use of university-issued credit cards.

Trustee Van Houten asked if the exceptions stated in the report were the same errors that had been identified in prior audits which had resulted in training and communication, or was the audit reporting only on errors that had been made since the training and communication took place. Mr. Poliseno stated that transactions had been tested during from July 2007 through December 2009 and that the errors had been fairly consistent throughout the whole time. Trustee Van Houten stated that the committee would need to understand that more clearly in order to understand the scope of the continuing credit card problem.

Dr. Asmussen agreed and stated that it was an important question. He added that after the most recent comprehensive audit in September of 2009, the Audit Committee made it clear that they expected the lessons from the audit to go out across the system and expected all presidents to pay attention to those findings. The Chancellor sent a memorandum to all presidents shortly thereafter, and internal auditing committed to following up with each of the colleges and universities. Dr. Asmussen stated that the follow-up process was underway. He added that this issue had been incorporated into the presidential evaluation process for the year, and that he would bring back to the committee a final status update in July.

Mr. Poliseno reviewed finding number seven regarding incorrect and unauthorized tuition rates and course fees charged to students by the university. He stated that St. Cloud State University had assessed over a million dollars to students for unauthorized fees or erroneous fees. He stated that the colleges and universities needed to receive Board approval prior to accessing fees to the students.

Dr. Asmussen stated that the amount of overpayment was relatively narrow and the prospect of refunds was very unlikely. He added that Ms. Buse had done further analysis. Ms. Buse stated that during the two and a half year audit period, the university collected about a quarter of a billion dollars from students in tuition and fees. She stated that there were three areas being questioned by the auditors. The first area was a transparency issue. The students knew about the charges, they were not overcharged, but the charges were not communicated clearly to the Board when it approved tuition and fees. The second area was the overcharges to students and Ms. Buse stated that additional analysis was being conducted. The maximum amount that may have been overcharged was about \$600,000 and the Office of Internal Auditing was working to determine the specific student impact to individual students. She stated that a decision would have to be made later on whether refunds would be needed, and she added that the Board may want

consider a policy that outlines when refunds should be made back to students. Finally Ms. Buse stated that the third area was actually undercharges to students due to technical errors in putting into the accounts receivable module. Trustee Thiss thanked Ms. Buse for the break down.

Trustee McElroy noted that the largest dollar item was regarding a facility assessment to reimburse capital costs which was authorized in 2002, but not renewed. He stated that issue seemed to be that the Board authorized the fee for a period of time but the fee continued past that period of time with a renewal. Ms. King agreed and stated that the students knew there would be a twenty year fee, but the finding highlighted that the fee did not appear on the annual disclosure which is provide the board. She stated that the fee would appear on future disclosures.

Trustee Thiss thanked the Office of the Legislature for their work on the audit, stating that the report was helpful and would prompt continuous improvements.

President Earl Potter, St. Cloud State University, stated that the university's credibility was very important to him and to his staff. He noted that imbedded in the audit report, were interesting and complicated issues related to the university's commitment to serve students. He stated that they were committed to resolving the findings where errors were clearly made, and committed to engaging in those difficult conversations, and also committed to supporting the Board's considerations of some of them more difficult issues of the cost benefit of assurance. President Potter thanked the Office of the Legislative Auditor for their service to the state and to the people of Minnesota, and he affirmed his commitment to the standards, written and unwritten, that were discussed.

Trustee Thiss agreed and stated that the issues raised were going to change the level of discussion on some issues, and assist the Board to look at things in new ways.

### **3. Office of Internal Auditing Annual Performance Report (Information Item)**

Dr. Asmussen stated that in response to the Legislative Auditor's program evaluation recommendation that the board exercise stronger oversight of the Office of the Chancellor, each of the committees would be reviewing a performance report for their relevant division. He noted that members would receive a full report at the Board meeting which would contain all of the committee reports and also the three divisions that did not have associated committees.

Dr. Asmussen presented the Office of the Internal Auditing Annual Performance Report. He noted that the Audit Committee was accustomed to a cycle where it received an annual audit plan for the upcoming year and an annual accomplishment report at the end of the year. Dr. Asmussen noted that the Office of Internal Auditing was reaching a point in 2011 where it may be transitioning away from contracting with the Office of the Legislative Auditor. Decisions would need to be made on how to get audit coverage of that next tier of colleges. He noted that if the services of the Legislative Auditor were not available, consideration would need to be given to using outside firms or to expanding the internal audit staff by a position or two to ensure ongoing coverage.

Trustee McElroy asked how many college campus audits were covered by the contract with the Office of the Legislative Auditor. Dr. Asmussen responded that the audits typically covered six or seven smaller campuses.

Trustee Thiss asked about the administrative costs. Dr. Asmussen stated that the administrative costs for the Office of Internal Auditing was very small and covered office space rental for the audit coordinators, training costs, in-state travel costs, and other supplies that the staff need. He noted that the divisions were not responsible for the costs born centrally by the Finance Division or the Technology Division, such as the cost of telephones or computers or the cost of office space at Wells Fargo Place.

Ms. King reminded members that the Office of the Chancellor was in the early days of a planning process to cut the system office budget, both in fiscal year 2011 as well as the Chancellor's commitment to have a plan for 2012 and 2013 by December of this year. She stated that the performance reports would provide some exposure to the work that was done throughout the office.

Chancellor McCormick asked about the new legislation requiring that there be no additional charge backs to the colleges and universities. Ms. King stated that the new legislation would not allow the system to increase charge backs in order to cover the most recent budget reduction. It did not require the system to stop charge backs that were already underway.

The meeting adjourned at 11:00 a.m.

Respectfully submitted,  
Darla Senn, Recorder