



**AUDIT COMMITTEE**  
**JULY 20, 2010**  
**1:30 P.M.**

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

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**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 June 15, 2010** (pages 1-7)
- (2) Status Report on Office of the Legislative Auditor Program Evaluation** (pages 8-9)
- (3) Discuss Approach for Auditing Internal Controls** (pages 10-15)
- (4) Transition for Executive Director of Internal Auditing** (pages 16-17)
- (5) Discussion of Committee Goals**

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  
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



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

**Agenda Item Summary Sheet**

**Committee:** Audit Committee

**Date of Meeting:** July 20, 2010

**Agenda Item:** Status Report on Office of the Legislative Auditor 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 had committed 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):**

John Asmussen, Executive Director, Office of Internal Auditing  
Beth Buse, Deputy 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**

<b>BOARD INFORMATION</b>
STATUS REPORT ON OFFICE OF THE LEGISLATIVE AUDITOR PROGRAM EVALUATION

**BACKGROUND**

An updated status report will be distributed at the Audit Committee meeting on July 20, 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: July 20, 2010*

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

**Agenda Item Summary Sheet**

**Committee:** Audit Committee

**Date of Meeting:** July 20, 2010

**Agenda Item:** Discuss Approach for Auditing Internal Controls

Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring

Information

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

This topic has carried over from the discussion with the Legislative Auditor at the June 2010 meeting.

**Scheduled Presenter(s):**

John Asmussen, Executive Director, Office of Internal Auditing  
Beth Buse, Deputy Director, Office of Internal Auditing

**Outline of Key Points/Policy Issues:**

- 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?

**Background Information:**

- A financial audit conducted on St. Cloud State University by the Office of the Legislative Auditor was to presented to the Audit Committee at the June 15, 2010 meeting.
- Key issues were highlighted, including the responsibilities for assessing the adequacy of internal controls throughout the System.

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

**BOARD INFORMATION**

DISCUSS APPROACH FOR AUDITING INTERNAL CONTROLS

**BACKGROUND**

At its June 15, 2010, meeting, the Audit Committee reviewed a financial audit which the Legislative Auditor had conducted on St. Cloud State University. Mr. James Nobles, the Legislative Auditor, highlighted the key issues cited in the audit report. The most prominent issue raised by Mr. Nobles centered on responsibilities for assessing the adequacy of internal controls throughout the System. He challenged the Audit Committee 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?

**Risk Assessments**

The first finding in the St. Cloud State University audit report claimed that the university “did not adequately assess its business risks or monitor the effectiveness of its internal controls.” Although the report acknowledged that the university had adequate internal controls over the financial cycles material to its financial statements, the finding stated that it was necessary for the university to extend its risk assessments beyond the financial statements. Mr. Nobles cited the other 16 audit findings in the report as evidence that the university did not employ sufficient risk assessment and monitoring procedures. The finding did not cite any departure from professional standards as the basis for its criticism. The audit also did not cite any findings resulting in a material failure of internal control and associated financial or reliability impacts.

Ms. Laura King, the Vice Chancellor – CFO, responded to the first audit finding on behalf of the System, and disagreed with the auditor’s judgment. She pointed to the significant investment that the System had made in executing its financial management and internal control program. The System had met, and surpassed, the provisions of the professional standards related to internal control structure<sup>1</sup>.

<sup>1</sup> The widely accepted standard for internal controls is contained in a 1992 publication by the Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework*. It is augmented

Although Mr. Nobles argued that the System needed to reach beyond its financial statement audits for assurances about its internal controls, Ms. King countered that, in fact, the System already did so. The Office of the Internal Auditor, the General Counsel's office and the Finance Division have participated in a structured approach to risk assessment and mitigation that includes:

- Regular and repeated training programs available to the campuses concerning systems, policies, procedures and guidelines
- Cascading monitoring and reporting protocols that culminate in Board Audit and Finance and Facilities Committee oversight
- Regular identification and review of policy and procedures for refreshment and identification of new/emerging best practices and/or risks.

The Finance division also requires all colleges and universities, not just those institutions large enough to have a material effect on the financial statements, to document and assess their key internal control cycles. The program was weighed against the availability of scarce resources, though and designed to be a cost efficient approach. Indeed, internal controls are expected to provide reasonable, but not absolute assurances about their effectiveness.

This debate, thus, centers on how much and what kind of emphasis on internal controls is necessary and prudent. Should the System invest more in its internal control program or redirect some of its efforts? It is an important issue for the Board of Trustees to consider periodically. Its current expectations regarding financial administration are expressed in Board Policy 7.3. If the Audit Committee determines that the Legislative Auditor's recommendations regarding internal control warrant further consideration, it could ask the Finance & Facilities Committee to review the sufficiency of Policy 7.3. It could also ask the Finance division to prepare a cost benefit impact statement capturing the added costs and added benefits of extending the internal control environment more deeply into the colleges and universities.

### **Financial Statement Audit Strategy**

As part of his testimony to the Audit Committee, Mr. Nobles suggested that the Board of Trustees may wish to reconsider its external audit strategy. A key component of the System's financial management program includes hiring CPA firms to conduct annual audits of the financial statements for the System and twelve of its largest colleges and universities (a 13<sup>th</sup> college, Normandale Community College will be added to the program in fiscal year 2010). Those audits have produced evidence that the financial statements are reliable ("clean" audit opinions each year since 2001) and highlighted any deficiencies in internal controls that warranted the attention of the Board of Trustees, Chancellor, or Presidents.

Board Policy 7.4, Financial Reporting, contemplates that the System will have an external audit plan. Table 1 shows the series of actions taken by the Board of Trustees and its Audit Committee regarding an external audit plan. It shows that this issue has been subject to regular review and adaptation. Its early conception envisioned annual financial statement audits for the

by Statement on Auditing Standards No. 109, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, released by the American Institute of Certified Public Accountants in 2007.

System and each of its individual colleges and universities. As the table illustrates, though, that expectation has been tempered to require annual financial statement audits for only 13 of the 32 colleges and universities. The remaining colleges have been subject to a financial audit every three years pursuant to a contract which the Office of the Chancellor had executed with the Legislative Auditor. By mutual agreement, the contractual arrangement with the Legislative Auditor ended in fiscal year 2010. To address this void in audit coverage, the Office of Internal Auditing will develop a recommended strategy for the Audit Committee to consider.

Mr. Noble’s challenged the Audit Committee to consider the value and role of obtaining annual financial statement audits for individual colleges and universities<sup>2</sup>. He based his challenge, in part, on questioning whether there were external audiences for whom these audits were prepared. The most comprehensive consideration of that question was addressed in a report prepared jointly by the Office of Internal Auditing and the Finance Division in January 2005 (see <http://www.internalauditing.mnscu.edu/committee/2005/january/plan-to-contract-cpa-firms-2005.pdf> ). The report found sufficient benefits to justify the added costs associated with having the largest colleges and universities prepare audited financial statements. The primary benefits associated with the audited financial statements were the assurances provided to the Board of Trustees, Chancellor, and Presidents. In addition, the exercise helps establish a solid framework for the internal accounting discipline of those institutions and an enhanced understanding of their financial condition and operations.

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.

Table 1: History of External Auditing Plans

Date	Action
April 1999	Audit Committee required an analysis of the cost and effort associated with accelerating the preparation of audited financial statements (Note: Since the 1995 merger, the MnSCU System had been blended into the State of Minnesota financial statements. Changes in generally accepted accounting principles, though, meant that separate MnSCU system financial statements would be needed by fiscal year 2002.)
May 1999	Internal Auditing report issued on “Reliability of MnSCU Financial Data”
June 1999	Executive Director of Internal Auditing and Vice Chancellor – CFO proposed a plan for attaining audited financial statements.
July 1999	Board of Trustees approved following schedule for audited System and institutional financial statements: FY 2000 – Legislative Audit of MnSCU System Balance Sheet. FY 2001 – Legislative Audit of MnSCU System comprehensive financial statements. FY 2002 – Prepare plan for audits of institutional financial statements.
Dec 2000	Legislative Auditor delivered qualified audit opinion on FY 2000 System-wide Balance Sheet.

<sup>2</sup> 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.

Date	Action
May 2001	Board of Trustees appointed CPA firm of Deloitte & Touche, LLP to serve as principal auditor of MnSCU system-wide financial statements for FYs 2001-2003.
Dec 2001	Deloitte & Touche, LLP delivered unqualified (“clean”) audit opinion on the FY 2001 System-wide comprehensive financial statements
Dec 2001	Board of Trustees accepted alternative plan for audited financial statements of individual colleges and universities: (1) 12 largest universities and colleges will be assessed for readiness to undergo a financial statement audit, (2) Based on the readiness assessments, institutions representing at least 40% of the System financial activity will be selected for FY 2002 financial statement audits to satisfy a clause in the contract with the principal auditor, (3) Financial statement audits for the remaining institutions will be phased in during FYs 2003 and 2004.
April 2002	Board of Trustees appointed two CPA firms ( <i>Larson, Allen, Weishair &amp; Co., LLP</i> and <i>Kern, DeWenter, Viere, Ltd.</i> ) to conduct financial statement audits of five universities and one college for FYs 2002-2004.
Dec 2002	Board of Trustees approved further modification to the external audit plan. The Dec 2001 plan is altered to add six additional institutional audits (remaining two universities and four more colleges) in FY 2003. This action will increase the proportion of financial activity audited as separate institutional audits to 60%; a further expansion to 75% of the financial activity was suggested for consideration in FY 2004.
Dec 2002	Contract with Legislative Auditor was refocused on colleges which would not receive annual financial statement audits per the Dec 2002 external audit plan.
April 2003	Board of Trustees appointed three CPA firms (adding <i>Virchow, Krause &amp; Company, LLP</i> to the other two firms selected in April 2002) to conduct financial statement audits of two universities and four colleges for FYs 2003-2005.
Dec 2003	Board of Trustees approved continuing the external audit plan as structured and to not add more audits of institutional financial statements, pending further study by the Office of Internal Auditing and the Finance Division.
April 2004	Board of Trustees appointed CPA firm of <i>Kern, DeWenter, Viere, Ltd.</i> to serve as principal auditor of MnSCU system-wide financial statements for FYs 2004-2006.
Jan 2005	Board of Trustees adopted a comprehensive external audit plan based on a study presented jointly by the Office of Internal Auditing and the Finance Division.
April 2005	Board of Trustees appointed three CPA firms to conduct financial statement audits of five universities and one college for FYs 2005-2007.
Jan 2006	Audit Committee reviewed external audit plan and made no changes. Process started to solicit proposals for audits of two universities and four colleges.
April 2006	Board of Trustees appointed three CPA firms to conduct financial statement audits of two universities and four colleges for FYs 2006-2008.
April 2007	Board of Trustees reappointed CPA firm of <i>Kern, DeWenter, Viere, Ltd.</i> to serve as principal auditor of MnSCU system-wide financial statements for FYs 2007-2009.
Dec 2007	Audit Committee reviewed external audit plan and made no changes. Process started to solicit proposals for audits of five universities and one college.

<b>Date</b>	<b>Action</b>
March 2008	Board of Trustees appointed three CPA firms to conduct financial statement audits of five universities and one college for FYs 2008-2010.
Jan 2009	Audit Committee reviewed external audit plan and added Normandale Community College as an annual financial statement audit. Process started to solicit proposals for audits of two universities and five colleges.
March 2009	Board of Trustees appointed three CPA firms to conduct financial statement audits of two universities and four colleges for FYs 2009-2011 and Normandale Community college for FYs 2010-2011.
March 2010	Board of Trustees appointed CPA firm of LarsonAllen to serve as principal auditor of MnSCU system-wide financial statements for FYs 2010-2012.

The goal of a well designed internal control system is to obtain reasonable assurance that the operating environment is free of material risks of error and /or malfeasance. This assurance is gained by application of multiple tools and methods which taken together limit the areas of exposure. Leadership in the public arena has a higher standard of care and due diligence since public funds are at risk. The question for the Audit committee concerns whether the current internal control system sufficiently balances the risk, the investment required and the obligation as a public steward.

*Date Presented to the Board of Trustee: July 20, 2010*



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

**Agenda Item Summary Sheet**

**Committee:** Audit Committee      **Date of Meeting:** July 20, 2010

**Agenda Item:** Transition for Executive Director of Internal Auditing

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.4, Part 5, Executive Director of Internal Auditing

**Scheduled Presenter(s):**

John Asmussen, Executive Director, Office of Internal Auditing  
Beth Buse, Deputy Director, Office of Internal Auditing

**Outline of Key Points:**

- The Audit Committee asked John Asmussen to work on a transition plan for the Office of Internal Auditing Executive Director position.
  
- Beth Buse was named to the position of Executive Director at the June 16, 2010 Board Meeting.

**Background Information:**

- John Asmussen will retire from the Executive Director position on July 20, 2010.
  
- Beth Buse will begin as the new Executive Director of Office of Internal Auditing on July 21, 2010.

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

<b>BOARD ACTION</b>
TRANSITION FOR EXECUTIVE DIRECTOR OF INTERNAL AUDITING

**BACKGROUND**

Dr. John Asmussen will retire from the Minnesota State Colleges and Universities on July 20, 2010. The Audit Committee asked Dr. Asmussen to work on a transition plan for the Office of Internal Auditing Executive Director position.

Ms. Beth Buse was named to the position of Executive Director at the June 16, 2010 Board Meeting. She will begin as the position on July 21, 2010.

Dr. Asmussen and Ms. Buse will present their transition plan to the audit committee.

*Date Presented to the Board: July 20, 2010*