

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE
MEETING MINUTES
September 14, 2010**

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

Audit Committee Members Absent: none.

Other Board Members Present: Trustees Duane Benson, Jacob Englund, and Scott Thiss.

Others Present: Beth Buse, Laura King, and Gail Olson.

The Minnesota State Colleges and Universities Audit Committee held its meeting on September 14, 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 2:44 p.m. and reviewed the agenda.

Approval of the Audit Committee Meeting Minutes

Chair Van Houten called for a motion to approve the August 19, 2010 audit committee meeting minutes. There was no dissent and the motion carried.

Committee Chair Van Houten noted that Legislative Auditors had not yet arrived, so he adjusted the order of the agenda to begin the meeting.

1. Discuss Approved Committee Goals (Information Item)

Ms. Beth Buse, Executive Director of Internal Auditing, reviewed the motion that was approved by the committee at the special Audit Committee meeting in August. She noted that there had been extensive discussion about the committee goal and the approved action had been summarized from the discussion. Trustee Van Houten asked for final committee comments. There were no additional comments. Trustee Van Houten stated the approved goal would be recommended to the full board.

2. Approve FY2011 Audit Plan (Action Item)

Ms. Buse reviewed the Fiscal Year 2011 Audit Plan as presented. She highlighted the percentage of time estimated for each area of the plan and the timeline for bringing updates before the committee. Trustee Van Houten stated that he thought the Audit Plan was a good piece of staff work that helped explain step by step how the Office of Internal Auditing would assist the committee to achieve their goal. He encouraged members who had been involved in similar programs to comment on their experiences in terms of both the process and the organization of the steps.

Trustee Krinkie asked what the benefits and drawbacks would be with conducting more internal control and compliance audits rather than financial statement audits. Ms. Buse stated that Legislative Auditor, Jim Nobles had challenged the committee to look at whether there was a need to have individual college and university financial statement audits. She stated that those comparisons would be part of the evaluation that would be considered as part of the review of the audit approach.

Trustee Krinkie asked for more detail about how that evaluation would take place. Ms. Buse stated that she planned to bring an approach for conducting the risk assessment before the committee in November. Trustee Van Houten stated that the risk assessment would include an evaluation of the number of financial statement audits that should be conducted. Ms. Laura King, Chief Financial Officer, stated that the financial statement audits would continue at some level because that work was under contract, though she added that the committee would need to make a decision in January about the continuation of a portion of that work.

The committee interrupted its discussion of the Fiscal Year 2011 Audit Plan to hear the presentation by the Office of the Legislative Auditor. When they returned to their discussion, Trustee Van Houten called for a motion to approve the Fiscal Year 2011 Audit Plan. *Trustee Vekich made the motion, Trustee Krinkie seconded. The Audit Committee recommends that the Board of Trustees approve the following motion:*

COMMITTEE ACTION:

On September 14, 2010, the audit committee reviewed the Fiscal Year 2011 Internal Auditing Plan and approved the following motion:

RECOMMENDED MOTION:

The Board of Trustees approves the Office of Internal Auditing annual Audit Plan for fiscal year 2011.

3. Legislative Auditor's Presentation on the Report of Five Colleges (Information Item)

Mr. James Nobles, Legislative Auditor for the State of Minnesota, introduced audit managers Mr. Brad White and Mr. David Poliseno. He stated that he and Mr. White would discuss finding number one with the committee after Mr. Poliseno had reviewed the other findings in the report.

Mr. Poliseno stated that the audit report contained twelve findings of internal control weaknesses and noncompliance with legal requirements. The report was divided into two sections. Section A contained significant and systemic findings, and Section B contained findings that were directed toward individual colleges.

Mr. Poliseno stated that finding two dealt with employees having incompatible or unnecessary access to computer system functions. Ms. King stated that there had been substantial progress on this finding. She asked Ms. Carolyn Parnell, Chief Operations Officer to comment. Ms. Parnell stated that a new security module was rolled out to campuses in May. Her staff worked on identifying incompatible roles and training campus staff on the new module.

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Ms. King stated that the challenge would be ensure that the campuses continued to take advantage of the robust tool that has been provided to them. She stated that the Office of the Chancellor would monitor and provide continuous training, so that campuses would be able to use the tool properly. Ms. King stated that the security module would solve almost all of the incompatible duties issues which had become a chronic problem.

Trustee Van Houten noted that this issue was systemic and not just at the five colleges which had been audited. He asked if the same module had been implemented throughout the system. Ms. King assured the committee that the module would address the whole system.

Trustee Krinkie asked if there were specific examples of problems that existed prior to the module's release that had been corrected once the module was in place. Ms. Parnell stated that prior to the security module there had been a manual process in place. The security module provided an automated way of determining incompatible duties and ensuring that campuses were able to mitigate risks.

Trustee Krinkie stated that if it was a system wide issue, and it had been resolved at one college, the hope would be that the issue would be resolved system wide. Trustee Van Houten stated that the Finance Department and the Office of Internal Auditing would follow-up to ensure that education and communication were implemented for each of the findings throughout the system, and would report back to the committee throughout the year.

Ms. Buse stated that she believed the security module was a phenomenal tool for helping campuses address the issues of incompatible duties. It allows the institution to determine incompatible duties at the time the employee is set up in the system and allows the institution to document mitigating controls in instances where those incompatible duties are necessary. She added that the module also provided a systematic way to determine the number of individuals that had incompatible access and whether there had been mitigating control documented.

Trustee Krinkie asked what type of communications had there been back to the Office of the Legislative Auditor. Ms. Buse stated that she and others had met with staff at the Office of the Legislative Auditor while they were conducting their fieldwork to discuss the timeline and the implementation of the security module. She further stated that the Office of Internal Auditing staff would verify that colleges and universities had implemented the tool.

Mr. Polisenio stated that finding three dealt with the Office of the Chancellor not justifying payments for early separation incentives. Trustee Van Houten noted that there was agreement with management on this finding.

Mr. Polisenio stated that finding four related to the colleges not accurately accounting for faculty and administrative leave benefits. Ms. King acknowledged that the system needed some improvement. Ms. Buse noted that there was still manual work that was being done but right at the time of this field work, Vice Chancellor Lori Lamb's staff had conducted staff training with an emphasis on this issue.

Mr. Poliseno stated that finding five involved all five colleges not adequately managing their equipment and sensitive asset inventories. Trustee Van Houten noted that there was agreement with management on this finding.

With regards to finding six, Trustee Thiss stated that credit card findings had been a chronic issue. Ms. King stated that due to the type of issues related to credit cards there would never be complete resolution. She stated that the finding was labeled as systematic because every audit had found credit card errors. She stated that the question to examine was whether the errors were indicative of a larger systematic procedural failure or widespread fraud or abuse. She stated that it was necessary to understand why the errors were occurring.

Trustee McElroy asked if there was a policy prohibiting the use of gasoline credit cards. Ms. King stated that there was a system procedure that encouraged colleges and universities to use institution credit cards rather than merchant based credit cards, which were more difficult to manage. Trustee McElroy noted that institutional credit cards were suppose to be issued under specific employee names so that expenses could be reconciled with the employee who used them. Ms. King added that the audit finding had prompted a review of the current system procedure and that an amendment would likely be proposed. Trustee Van Houten asked how soon that proposed amendment might be brought before the Board. Ms. King stated that the proposed amendment would likely go to the Finance Committee before the end of the year.

Trustee McElroy stated that in finding nine, it was frustrating to note that colleges were still having difficulty reconciling bank accounts. Ms. King agreed but stated that this was an unusual problem at a college that was very well run on the business side. She explained that they had a difficult chronic problem that they had struggled to figure out. The other college had staffing problems, but she assured the committee that the issues had been resolved. Trustee McElroy asked if the accounts had large balances if they were relatively incidental. Ms. King stated that the reconciliation problem had been predominately around the tuition based bank accounts. She explained that balancing cash in the local accounts with cash in the state account was difficult because of timing differences with wire transfers and debits and credits.

Trustee Van Houten asked if there were any findings in Section B that the Legislative Auditors would like to bring to the committee's attention. Mr. Brad White highlighted a couple of institution based findings from Section B.

Mr. Nobles stated that from the perspective of the Office of the Legislative Auditor, the Minnesota State Colleges and Universities had a very robust financial management system. He acknowledged that Trustee Vekich was back on the Board of Trustees and he credited him for the work he had done in the past to help establish the structure of the audit environment at the Minnesota State Colleges and Universities. He stated that the Office of the Legislative Auditor appreciated the fact that the Audit Committee existed and that it took the audit findings very seriously.

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Mr. Nobles reviewed finding one; the colleges did not adequately assess their business risks or monitor the effectiveness of their internal controls. He stated that it would not be possible to achieve good internal controls and good financial management with audits alone because the audit function was limited to a snapshot of time. The role of management and the Board was to ensure that on a daily basis people were thinking with a mindset of risk assessment and internal control. He stated that the Minnesota State Colleges and Universities had done a lot, but that they could do more.

Mr. White stated that finding one was about assessing risks and building controls around those risks. The colleges had ensured that the numbers were accurate and that they were conveyed accurately in the financial statements. However, he noted that there were eleven findings in the report that identified areas where colleges had not controlled their finances, or had not complied with the Board policies. The recommendation in finding one was that the colleges identify the risks and define control expectations, train staff in those expectations and monitor employees' adherence to those expectations.

Ms. King believed that finding one overstated the operating environment of the campuses. She stated that the Audit Committee's discussion in August around designing the future audit approach was the right response to finding one. She stated that the system would need to make a judgment about the cost benefit analysis around staffing this effort at the campus level and at the Office of the Chancellor, and she added that the audit coverage would need to be done to a level that would provide comfort to the Board.

Chancellor McCormick asked for advice from the Office of the Legislative Auditor about how to approach the credit card issue. Mr. Nobles stated that there were efficiencies that occur by the utilization of institution credit cards rather than having employees turn in reimbursement claims. He added that the credit card program was tightly run in Minnesota. Mr. Nobles stated that although much had already been done to ensure a tight control system, it would only work to the degree to which those risks were communicated down and were made part of the daily thinking process of people who are engaged in the financial transactions.

Trustee Vekich agreed with Mr. Nobles and stated that there could never be enough risk control and assessment. He added that it was important to first understanding the risk assessment in order to understand what was mitigated, before the committee could discuss the return on dollars. Trustee Vekich stated that it was the responsibility of the Audit Committee to continue to push the risk assessment, to ensure that the message is received down into the colleges and universities as a cultural issue.

Trustee Van Houten stated that there would be opportunity during the Audit Plan discussion to discuss the approach to risk assessment. He further reminded members that the Office of the Legislative Auditor report stated that these were activities with a high risk of error frequency, and he noted that it was almost impossible to have purity in every calculation. He added however, that it was a serious concern.

Trustee McElroy agreed with Trustee Vekich about the importance of reaching into the culture at the campus level, but he was also concerned about resources. Mr. Nobles stated that the goal would be to utilize the current resources so that the controls would be in place and monitored as part of the daily operation.

Trustee McElroy stated that the committee had embarked on a design process for the audit approach. He added that the committee would take its work very seriously and that they would find a way to make the process work. He expressed concerns that they might get to the end of that process and go through another audit that would produce recommendations for yet additional layers of control.

Mr. Nobles stated that the fact that the Audit Committee existed and that there was presidential representation present were a positive part of the solution. He complimented the Chancellor for making rigorous financial management an important part of his interaction with the presidents. And he again stated that financial management was one of the real strengths at the Minnesota State Colleges and Universities. But he emphasized that in a large complex organization it was important to continually push the message of risk control and assessment down to the employees who conducted the financial transactions.

President Johns stated that the chancellor held the presidents accountable for audit issues, particularly on repeat audit issues. He added that as presidents, vice presidents, and deans there was much that could be done to educate and train employees to better understand the risk controls and assessment. Trustee Benson agreed with President Johns that this was a direction that the leaders needed to establish.

Trustee Alfredo asked if there would be a presentation to the committee in January that would provide an update on the status of the findings. Ms. Buse stated that she would present the Annual Report in January which would include an update on all outstanding audit findings that had been issued within the system.

In the goal of continuous improvement, Trustee Krinkie asked the Legislative Auditor if the processes that had been put in place to address some of the findings were appropriate. Mr. Nobles stated that they had been very encouraged but that they would likely not be conducting the future audits that would determine whether or not the change had been put into place and sustained. He stated that the committee would need to put into place a mechanism that would not only follow-up on the audit findings but also look for other areas where there might be lapses in internal control and compliance.

Trustee Van Houten thanked Mr. Nobles, Mr. White, and Mr. Poliseno for their presentation. He stated that the Board of Trustees were fiduciaries for people outside of the system as well as those within the system. Trustee Van Houten stated that he had great confidence that the committee would be able to work out a satisfactory tradeoff.

4. Discuss Internal Audit of St. Cloud Technical and Community College (Information Item)

Ms. Buse stated that St. Cloud Technical and Community College would typically have been part of the audit rotation by the Office of the Legislative Auditor. To get the coverage that was no longer offered by the Legislative Auditor, the Office of Internal Auditing conducted the audit. Ms. Buse introduced Ms. Melissa Primus, Southwest/Central Audit Coordinator who led the audit of St. Cloud Technical and Community College.

Ms. Buse presented the St. Cloud Technical and Community College audit. She stated that the audit had the same objectives and scope as the Legislative Auditor had for the other five colleges. She noted that St. Cloud Technical and Community College had a wonderfully run operation and that there were only three issues that needed to be brought to the committee's attention. Trustee Van Houten noted that the three recommendations were similar to the issues that the committee had already explored with the Legislative Auditor.

Ms. Buse pointed out that there were no issues related to leave reporting noted. She stated that they had focused the audit testing in the timeframe after the training by Vice Chancellor Lamb and her staff was completed, and there were no issues after that timeframe. Trustee Van Houten felt that was an important point and that it indicated that the training at St. Cloud Technical and Community College had been effective.

Trustee McElroy asked if this was the first time the Office of Internal Auditing had conducted this type of audit and how many staff hours had been required. He noted that it would be helpful information as the committee made decisions about how to provide compliance audits in the future. Ms. Buse noted that although there had been additional hours for planning, the Office of Internal Auditing had spent substantially less hours than the Office of the Legislative Auditor due to the experience level of the staff.

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

Ms. Buse reported on the status of the Office of the Legislative Auditor program evaluation findings. She highlighted the updates in the report since the previous month. A number of items had been completed. She noted that items that were still "in progress" now had specific completion dates associated with them, and that there was more definition of what it meant to be complete. Ms. Buse stated that the committee would see the draft report in November, and they would not receive another red/yellow/green status update.

Trustee Van Houten stated that the work done by the committees was an indication of how seriously the Board of Trustees took the findings that were presented by the Office of the Legislative Auditor.

The meeting adjourned at 4:20 p.m.

Respectfully submitted,
Darla Senn, Recorder