

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: January 18, 2011

Agenda Item: Review External Audit Plan.

Proposed
Policy Change

Approvals
Required by
Policy

Other
Approvals

Monitoring

Information

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

According to Board Policy 1A2, Part 5, Subpart E, the Audit Committee oversees the work of external auditors. The audit contracts for six individual college and university audits have expired.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing
Laura King, Vice Chancellor - CFO

Outline of Key Points/Policy Issues:

- The contract with the principal auditor, LarsonAllen, requires that the system contract for individual financial statement audits of colleges and universities so that at least 60% of the system-wide financial activity is covered by individual college and university audits.
- There are five universities and one college whose contracts have expired. This group includes the largest universities in the system and collectively accounts for 40% of system assets and 41% of system operating expenses (based on fiscal year 2010 data).
- The Office of Internal Auditing and the Finance Division recommend continuing financial statement audits of the six institutions.

Background Information:

In August 2010, the Audit Committee approved a committee goal for the year that included a consideration of the value and role of obtaining annual financial statement audits for individual colleges and universities. Although, this decision does not satisfy the goal, it is an interim step to a June 2011 recommendation to the Board of Trustees.

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BOARD INFORMATION
REVIEW EXTERNAL AUDIT PLAN

In January 2005, the Board of Trustees approved a Strategic Plan for External Audit Services. The plan provided contracting with CPA firms to conduct annual financial statements audits of the larger colleges and universities. The plan provided that the annual audit of the system-level financial statements would be augmented with the stand-alone audits of twelve colleges and universities. In January 2009, the Board of Trustees approved an amendment to the strategic plan for external audit services; Normandale Community College was added to the annual audit cycle for fiscal years 2010 and 2011. This group of stand-alone audits was intended to account for approximately 60% of system-wide financial activity and, thus, improve the cost-effectiveness of the system-level audit.

The contract with the Minnesota State College and University system’s principal auditor, LarsonAllen, LLP, requires that the system contract for individual financial statement audits of colleges and universities so that at least 60% of the system-wide financial activity is covered by individual college and university audits. Two years remain on the current three-year contract.

In August 2010, the Audit Committee approved a committee goal for the year of completing a thorough evaluation of the audit approach for the Minnesota State Colleges and Universities. Included in the evaluation is a consideration of the value and role of obtaining annual financial statement audits for individual colleges and universities.

Table 1 shows six of the largest institutions that have expired contracts. These institutions accounted for approximately 40% of system financial activity in fiscal year 2010.

Table 1: College or University Financial Statement Audits with Expired Contracts

Audited Institution	% System Assets	% System Operating Expenses
Bemidji State University	3.84%	4.36%
Minnesota State Community & Technical College	1.88%	2.89%
MSU, Mankato	10.85%	10.18%
MSU Moorhead	5.17%	5.33%
St. Cloud State University	9.49%	11.14%
Winona State University	8.74%	6.78%
Total	39.97%	40.67%

Note: Percentages are based on fiscal year 2010 financial statements.

Survey of Six Institutions

For the six institutions with expired contracts, presidents and chief financial officers were surveyed to assess their opinions on the value of audited financial statements. They were asked to rate the usefulness of audited financial statements for meeting the needs of external and internal audiences.

- Generally, the audited financial statements were viewed as very valuable information for accreditation agencies and potential donors.
- Presidents and chief financial officers had some notable differences on the value of audited financial statements for internal audiences. Presidents found this information very valuable for administrators; while chief financial officers found this moderately valuable. Presidents also found it valuable for the audited statements to demonstrate fiscal accountability and stewardship to faculty and students, however, the chief financial officers thought that the information had limited value for faculty and students.
- Both the presidents and chief financial officers generally agreed that financial statements were valuable for a wide range of fiscal information needs: providing a comprehensive financial picture, monitoring financial results, establishing fiscal discipline, evaluating the effectiveness of fiscal controls, and assessing business office performance. However, while presidents rated these items as “very valuable”, most CFOs rated these items as “somewhat valuable”.
- In addition, the survey asked the following open ended question:

If the individually audited statements were no longer required by the Office of the Chancellor, would you consider continuing to have an externally audited financial statement?

All participants responding to this question indicated that they would consider having an external audit even if not required. However, they did suggest that the audit costs would factor into their decision making. Most desired to see the process continue as it has. One university is required to have an audit due to a unique financing arrangement with another governmental entity. One chief financial officer commented, at a minimum, there is a need for periodic reviews and testing of institutional internal controls. Another chief financial officer suggested that some transactions with its foundation could be impacted without audited financial statements.

Next Steps:

In order to have contracts in place to audit financial activity for fiscal year 2011, the Office of Internal Auditing and the Finance Division need to proceed with the following steps.

- January and February 2011 – The Office of Internal Auditing and the Finance Division will prepare a request for proposal (RFP) to solicit interest from external audit firms for financial statement audits for the five universities and one college with expired contracts for fiscal years 2011, 2012, and 2013.

The Office of Internal Auditing, Finance Division, and the six institutions will evaluate the proposals to develop a recommendation to the Board of Trustees. The evaluation criteria will include: qualifications, understanding of objectives, work plan and cost.

- March 2011 – The Board of Trustees will take action on a recommended motion for the appointment of external audit firms for the six institutions.
- June 2011 – As part of the Audit Committee’s goal for the fiscal year, the Office of Internal Auditing, in consultation with the Finance Division, will recommend a new Strategic Plan for External Audit Services to the Board of Trustees.

Date Presented to the Board of Trustee: January 18, 2011