MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE
MEETING MINUTES
January 18, 2011

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

Audit Committee Members Absent: Trustee Alfredo Oliveira.

Other Board Members Present: Trustees Cheryl Dickson, Christopher Frederick, and Scott Thiss.

Others Present: Chancellor McCormick, Beth Buse, Laura King, Gail Olson, and President Pat Johns.

The Minnesota State Colleges and Universities Audit Committee held its meeting on January 18, 2011, at Wells Fargo Place, 4th Floor Board Room, 30 East 7th Street in St. Paul. Chair Van Houten called the meeting to order at 1:03 p.m. and reviewed the agenda.

Approval of the Audit Committee Meeting Minutes
Once there was a committee quorum, Chair Van Houten called for a motion to approve the November 17, 2010 audit committee meeting minutes. There was no dissent and the motion carried.

1. Audit Risk Assessment Methodology Discussion (Information Item)

   Ms. Beth Buse, Executive Director of Internal Auditing introduced Ms. Melissa Primus, Regional Audit Coordinator who was the lead developer on the project.

   Ms. Buse reminded members that part of the Audit Committee's goal for the year was to re-evaluate the audit approach based on a risk assessment. She added that completing a risk assessment was also a requirement of internal audit standards. She further stated that there was a heightened risk for the system because of staffing turnover and budget reductions causing process changes. She added that leadership at the colleges and universities and at the Office of the Chancellor were having to consider costs/benefits as they made risk based decisions.

   Ms. Buse outlined a three pronged approach to conducting risk assessment within the audit environment. The first prong would be to consider systemwide risk factors. She stated that Vice Chancellor Laura King and General Counsel Gail Olson were working to develop a formalized enterprise risk management program which was scheduled to go before the Finance Committee in March. She added that she would collaborate with Vice Chancellor King, General Council Olson and Vice Chancellor Darrel Huish to conduct discussions with leadership across the organization as well as with the Board, to determine systemwide risk factors.

Ms. Buse stated that the second prong would be fiscal focused risk factors which would determine the type of financial internal control and compliance audit coverage that would be needed now that the system was no longer contracting services from the Office of the Legislative Auditor. She stated that part of the process would be to begin trending and utilize data analysis techniques to help determine where to prioritize the work.

The final prong would be information technology risk factors. Ms. Buse stated that she was in the process of establishing an information technology audit coordinator position. She stated that once that individual was in place, they would develop an approach to determine where to spend resources within information technology audit.

Trustee Van Houten reminded members that this was their chance to brainstorm or ask questions about the development of an audit plan that would have the right balance between cost benefit in terms of risk assessment.

Trustee Vekich asked about the methodology that would be used to determine systemwide risks. Ms. Buse explained that they would be joining a series of regularly scheduled meetings that Vice Chancellor King conducts with the colleges that had not received a financial statement audit. She stated the goal would be to come out of those meetings with an idea of the types of risks system leaders are facing beyond the reduction in budgets.

Trustee Dickson asked for examples of system wide risk factors that would not be fiscal focused or an information technology risk factor. Ms. Buse stated that there were data privacy risks, such as disclosure of non private data or integrity of data, and there were risks associated to staffing changeover such as the loss of knowledge. Campus leaders were also concerned with mental health issues, both with students and with staff.

Trustee McElroy stated that there may be new risks associated with multi-campus delivery of student services and regionalization of services that did not exist on a small campus where staff might better recognize students and other staff. General Counsel Olson agreed but noted that other risks might decrease by moving a function that was not frequently done at a small institution to somewhere where it would be done regularly. She noted that there were important things to be evaluated from either perspective.

Vice Chancellor King reminded committee members that the conversation around risk assessment was very broad and that the committee's charge was audit planning as it is shaped by risk assessment. She stated that there was another process taking place that would look at the larger world of risk assessment and that conversation would go before the Finance Committee on a regular update basis starting in March. Trustee Van Houten agreed and stated that the Audit Committee's responsibility would be to develop the audit plan based on risk assessment decisions. He reminded the committee that it was important for the system to be aware of the possible risks so that some risk that had been avoided in the past would not show up at a college or university because it had not been reviewed there. He further stated that the presidents relied on the objective assessment of financial effectiveness.

Trustee Vekich agreed that it would be valuable for Ms. King and Ms. Buse to assess where the risks were and to prioritizing those risks as a starting point for the college and

university leadership.

Trustee Van Houten asked for insight into contacts that had been made with others who were working on risk assessment issues. Ms. Buse explained that her staff had contacted about a dozen higher education institutions internal audit departments to talk about how they were assessing risk in order to build their audit plans. She stated that there were a variety of methodologies being used depending on the resources they had in internal audit and the professional judgment of the chief audit executive in those institutions. She noted that professional standards did not prescribe how risk assessment was to be done, except to direct that there should be system leadership and board input.

President Pat Johns, Lake Superior College, stated that he welcomed the audits of his college as a way to review the work that was done, but he added that he could see many risks that ought to be examined including the potential for a dramatic shift in budgets that might occur if there were a large enrollment reduction in one year.

Trustee Van Houten thanked everyone for their comments and told Ms. Buse that there was a general satisfaction with the scope of the approach being used and the committee would look forward to preliminary information in March.

2. Review External Audit Plan (Information Item)

Ms. Buse began by recognizing Ms. Caroline Gabel, Northwest Regional Audit Coordinator, for taking lead responsibility for conducting the surveys and compiling the results on this project. She stated that based on the Audit Committee's goal to reevaluate the audit approach, she planned to bring a recommendation for the sytemwide audit plan to the Committee in June. But she added that there would need to be an interim discussion about the audit plan because audit contracts for six of the largest institutions had expired and those institutions accounted for 40% of the system's financial activity.

Ms. Buse stated that she and Vice Chancellor King would recommend a continuation of the financial statement audits of those six institutions. She stated that the system had two years remaining on their contract with LarsonAllen LLP as the principal auditor, and that contract guaranteed that the system would have coverage on 60% of the financial activity. Finally she added that they had talked to the presidents and the Chief Financial Officers of the six institutions who expressed confidence that the audit process was valuable and that they wanted to continue with the audit approach.

Ms. Buse stated that if the request for proposals went out by the end of the month, she would be able to return to the Audit Committee in March with a formal motion for the committee to enter into contracts with external auditors for those six firms.

Trustee Van Houten noted that it would be possible to cancel these contracts at some future date if the Audit Committee developed an audit approach that no longer required the audits of these six largest institutions. He asked committee members if they were comfortable pursuing the request for proposal. The members agreed and did not have any concerns or questions.

Trustee McElroy agreed that the most logical audit approach would be to put out the

request for proposals for the six colleges and universities but he questioned whether those contracts should be for the full three year term or for a shorter timeframe. Ms. Buse stated that she would recommend going forward with the three-year request for proposal in order to get the competitive advantage on those contracts. Vice Chancellor King agreed but stated that she would not support the idea of bidding for three-year contracts, awarding those contracts, and then terminating them after the second year. She stated that that would unfairly affect the bidders pricing model, and she suggested that if the Board was inclined toward a shorter term contract, they should pursue that in order to give the vendors a fair chance to price their response.

Vice Chancellor King stated that she could not envision a scenario where the system would not contract to audit these six institutions. She stated that these colleges and universities were the engine of the system and that separate financial statement audits from these institutions provided the Board with a certain level of comfort and assurance.

Trustee Van Houten stated that the committee was in agreement and directed Ms. Buse to move forward with the request for proposal process with the support and endorsement of the Audit Committee.

3. Review Internal Auditing Annual Report (Information Item)

Ms. Buse explained that Board Policy required that an Internal Auditing annual report be given to the Board each year.

Trustee Dickson stated that the Office of Internal Audit had provided wonderful service to the Board over the years. She recognized Trustee Vekich for his early role and foresight in the creation of the office. She pointed to the statewide report on undergraduate student credit transfer as an example that highlighted the important work of the office. She stated that the speed with which the staff had worked had been wonderful and that the methodology had been terrific. She added that it had been especially valuable to have the two student organizations involved in that study.

Trustee Van Houten asked where the time for reports like the one Trustee Dickson had highlighted would fall in the annual report. Ms. Buse explained that those reports were systemwide audits. She noted that it had been a unique project for the office in that staff had worked quickly to present the results within a couple of months. Systemwide projects with broader scopes, such as the Auxiliary and Supplemental Revenue project which had been completed in fiscal 2009, required staff to visit every campus. Ms. Buse noted that there were times when that approach was needed in order to get to a deeper level of understanding and knowledge, but she noted that it was a resource intensive decision to do those types of projects. Finally Ms. Buse reminded the committee that in fiscal year 2010, the committee had made the decision not to put as much time into the systemwide audits so that staff could focus on follow-up activities and systemic issues that the Office of the Legislative Auditor had pointed out.

Trustee Van Houten stated that the Board had commented on the importance of having resources available for special projects from time to time. He recommended that the audit plan should provide some understanding of how the Audit Committee would handle new projects in the future if there was less money or time specifically set aside in the

budget for those kinds of projects.

Trustee Vekich asked if there had been a recent audit of the information technology systems. Ms. Buse stated that there had not been an information technology audit in a number of years. She stated that the system had gotten some limited coverage by the external audit firms on the financial systems during that time, but added that part of the committee goal and the goal of the Office of Internal Auditing was to develop an information technology audit strategy for the office.

Trustee Vekich asked when that audit strategy might be available. Ms. Buse stated that she had recently hired Mr. Eric Wion as the new Deputy Director of Internal Auditing and he was formerly with the Office of the Legislative Auditor and was the Information Technology Audit Manager. She added that she was currently working with Human Resources to establish an Information Technology Audit Coordinator position and she added that she hoped to have someone in that position by the end of the fiscal year.

Trustee Vekich agreed and stated that he understood the massive process of auditing Information Technology systems, but added that from the standpoint of a system risk, it was likely one of the biggest risk areas. He encouraged staff to work toward a recommendation sooner rather than later, and noted that it would be an expensive prospect.

Trustee Van Houten stated that the information technology audit approach would be part of the risk assessment plan that would come before the committee in June. Ms. Buse stated that as it related to the risk assessment, she would have an initial risk assessment as part of the audit plan in June of 2011. She stated that as she had staff on board, the plan would mature over time.

Mr. Darrel Huish, Vice Chancellor for Information Technology and CIO, recognized that it would be a tremendous opportunity for his division to the extent that there were resources available to perform information technology audits. He agreed that it would be helpful to have the audit plan available as soon as possible and he stated that his division stood ready to take advantage of that whenever it is appropriate.

Trustee Van Houten asked if there was a way to accelerate the information technology audit plan. Ms. Buse stated that she would have something in place as part of the plan to be presented in June. She added that they would have to determine what resources were available. She stated that one of the discussion points with the Audit Committee in August when they were developing their committee goal to re-evaluating the audit approach was to determine the right amount of resources within the Office of Internal Audit, given the loss of the Office of the Legislative Auditor contract. She added that at one time, the Office of the Legislative Auditor had provided information technology audit coverage but that they had not had the capacity to do that for several years. She stated that since that time there had been a void in the information technology audit coverage but she was rebuilding that capacity with staff.

Trustee Vekich stated that it was important that the committee keep talking about this issue. He stated that preparation for an enterprise audit was a huge task, which required the staff and the revenues necessary. Trustee Vekich suggested that some well focused

testing be done in order to gain some understanding of what risks might exist.

Trustee McElroy stated that there might be some opportunities to use graduate or under graduate students to complete some of the testing that Trustee Vekich mentioned. He stated that the University of Minnesota might take advantage of those types of academic resources and the Minnesota State Colleges and Universities might consider those same opportunities.

Trustee Van Houten stated that in developing the plan, staff should consider what resources would be necessary to gain assurance, rather than developing the plan based solely on the resources that were currently available. He suggested that the plan should start with current resources and then let the Board work their way through the implications for the appropriate budget.

Vice Chancellor King reminded the committee that the audit plan would come down to a cost benefit judgment of how much risk the Board would be willing to assume and at what cost. She suggested that they bring a framework back to the committee that would attempt to put weight on the consequence of unmitigated risk and the price to mitigate that risk. She stated that part of the obligation was for everyone to acknowledge and agree to accept certain risks and that would be difficult to do unless the cost to mitigate the risks were better explained.

Trustee Van Houten agreed with Vice Chancellor King and stated that his suggestion was that they start with the assessment and tradeoffs rather than starting with the resources that were currently available. Vice Chancellor King agreed and stated that they would work to develop some analytical judgment about the equation.

The meeting adjourned at 1:56 p.m.

Respectfully submitted,
Darla Senn, Recorder