

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

Audit Committee Members Present: Trustees James Van Houten, Chair; Philip Krinkie, Dan McElroy, David Paskach (via telephone), and Michael Vekich.

Audit Committee Members Absent: none.

Others Present: Trustees Brett Anderson, Duane Benson, Cheryl Dickson, Jacob Englund, Alfredo Oliveira and Chancellor Rosenstone.

The Minnesota State Colleges and Universities Audit Committee held its meeting on October 18, 2011, at Wells Fargo Place, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Chair Van Houten called the meeting to order at 10:03 a.m. and reviewed the agenda.

Approval of the Audit Committee Meeting Minutes

Chair Van Houten reviewed the highlights of the June meeting minutes. He called for a motion to approve the June 22, 2011 audit committee meeting minutes. There was no dissent and the motion carried.

Chair Van Houten welcomed President Edna Szymanski who, with President Pat Johns, will serve as the Leadership Council representatives to the audit committee.

1. Approve FY 2012 Audit Plan (action item)

Ms. Beth Buse, Executive Director of Internal Auditing, stated that approval of the FY 2012 Audit Plan was held over from the July committee meeting due to a lack of a quorum. She reviewed the details of the plan for the committee.

Trustee Van Houten stated that there were provisions in the public meeting laws that would allow closed discussions about issues that would create security risks. He suggested that detailed discussions about vulnerability and threat management may require the audit committee to call for a special closed meeting.

Trustee McElroy asked if the plan was to audit the system abstractly or the data the system had produced. As an example he noted past challenges in the proper recording of faculty leave hours, and asked whether the system for tracking faculty leave would be audited, or if the leave would be audited to determine if it was correct. Ms. Buse stated that it would depend on where the control rests. In cases where there was a great deal of manual intervention, then the recommendations would be addressed at the specific college or university, though there could also be recommendations that controls be built into the system.

Trustee Van Houten reminded trustees that the committee had approved the audit budget

with some confidence that with additional work and networking by the finance people, and with IT staff being more involved on security audit work, that the approved budget would be adequate. But he reminded the committee that there had also been an understanding that if the budget wasn't sufficient to meet the audit goals, the committee could take additional funds from the reserves to ensure adequate audit coverage at a later date.

Ms. Laura King, Chief Financial Officer, stated that the committee would have another chance in January to examine the system's overall audit strategy when the new audit contracts were reviewed. She reminded trustees that the audit strategy was a hybrid model of financial statement audits and internal control and compliance audits. She added that the Office of Internal Audit would be conducting a user side survey this fall to measure campus endorsement and utility of the financial statement audit effort.

Trustee Oliveira asked about the scope of the ISRS security audit. Ms. Buse explained that the project had not been fully scoped out, but that the plan would be to review user level security as it related to individuals having more access than necessary or incompatible access. She explained that segregated duties in ISRS security would be a preventative control, but if preventative controls were not possible, then there should be detective controls or mitigating controls, to ensure that transactions are reviewed by another individual.

Ms. Buse also stated that a new security module had been put into place in the last year and a half, so it might be appropriate timing to review that module to ensure that the implementation of that security module was complete and being utilized.

Trustee Van Houten stated that as the campus cooperative takes over certain functions, there will be the need for not only technology security but also an audit policy. Ms. Buse stated that she was working with Mr. Colin Dougherty, Associate Vice Chancellor of Finance, who is leading up the efforts on the cooperative and shared services. She noted that there were some things already in production, but that there were some processes where audit work could be done on the front end before they are put into production to ensure that appropriate internal controls are in place.

Trustee Van Houten called for a motion to approve the FY 2012 Audit Plan. *Trustee Vekich made the motion, Trustee McElroy seconded.*

COMMITTEE ACTION:

On October 18, 2011, the Audit Committee reviewed the draft Fiscal Year 2012 Internal audit plan and approved the following motion:

RECOMMENDED MOTION:

The Board of Trustees approves the Office of Internal Auditing annual audit plan for fiscal year 2012.

2. Proposed Amendment to Board Policy 1D.1 Office of Internal Auditing (First Reading) (Information Item)

Ms. Buse stated that Board Policy 1D.1 contained the audit charter for the Office of Internal Auditing, and was due for a periodic review as required by board policy. She explained that the majority of the proposed changes would ensure that the Office of Internal Auditing is in compliance with changes in the International Standards for the Professional Practice of Internal Auditing.

Ms. Buse noted the proposed elimination of the section in Part 5 relating to Consulting Services. She stated that while the office does still provide consulting in the form of professional advice to college and university staff, there is no longer organizational development expertise on staff.

Finally, Ms. Buse noted the second reading the proposed policy amendment would reflect the appropriate naming changes for the Office of the Chancellor.

Trustee Van Houten noted that deciding when to involve the board on issues was an important responsibility of the Executive Director. He stated that as the chair of the audit committee, he meets with Ms. Buse to discuss the types of issues that arise throughout the system in terms of fraud inquiries and investigations.

3. Review Annual Internal Auditing Report for fiscal year 2011 (Information Item)

Ms. Buse stated that in the past the Annual Internal Auditing Report had been presented in January, but that it was her intention to shift the timing of the report, which was required under board policy 1D.1, to be more closely aligned to the end of the fiscal year.

Ms. Buse assured the committee that she was independent in fact and in appearance. She stated that organizationally, the office was structured in a manner that helped to ensure that independence, but added that she intended to conduct the work of the Office of Internal Auditing with integrity and independence in reporting to the audit committee.

Ms. Buse reviewed the Annual Internal Auditing Report for fiscal year 2011. She reminded members that the fiscal year 2010 financial statement audits resulted in unqualified opinions on all fourteen statements and no material weaknesses or significant deficiencies. She noted that with the loss the Legislative Auditor contract the internal control and compliance audits that had been done in the past were not conducted in fiscal year 2011. She added that the Office of the Legislative Auditor did conduct a review of Metropolitan State University, and that they anticipated wrapping up their work by the end of the calendar year, so there should be a report to the audit committee in late December or early January.

Ms. Buse stated that the colleges and universities had done phenomenal work to clear outstanding audit findings. She noted that as of June 30, 2011 there were only forty-two unresolved audit findings systemwide. Ms. King stated that there had been hundreds of internal control and compliance findings generated by the Legislative Auditor each year. She noted that very few of them had been significant but that there had been a lot of work

to clean up the backlog. She added that the challenge would be to put the monitoring systems in place to check continuing compliance going forward, but she further added that much of that work was already being done.

Ms. Buse stated that the number of audit findings should be relatively low because there hadn't been any internal control and compliance audits in the past year. She noted that there were still five audit findings classified as unsatisfactory progress, but she further stated that she and Vice Chancellor Laura King were working with those institutions to get those five areas under controls.

Trustee Van Houten asked President Edna Szymanski, Minnesota State University Moorhead, about the reaction of the presidents and the focus on unresolved audit findings. President Szymanski thanked the Office of Internal Audit and the Finance Division for their assistance at the university to resolve outstanding audit findings. She stated that as a president she appreciated the system's assistance in identifying and resolving issues.

Vice Chancellor King expressed her appreciation of the presidents and the business staff for the work that had been done on the campuses.

Trustee McElroy asked for an example of a capital asset management finding. Ms. Buse stated that typically it related to inventorying fixed assets. She added that there were two outstanding audit findings where the college and university had not completed a thorough fixed asset inventory. Ms. King added that inventorying fixed assets was a difficult task for colleges and universities. It required them to walk through every building on a million square feet of property, fast enough so that nothing moved before it could be recorded.

Trustee Paskach stated that he hoped that as the system began to do its own internal compliance and control audits, there would be the same quality of findings that would get the appropriate reaction by the colleges and universities. He was confident that would happen but cautioned that they need to stay vigilant.

Trustee Van Houten noted that in the past those findings had been used by the Finance Division to develop training programs for the campuses. He noted that in the absence of new information about systematic issues, there would have to be some subjective assumptions to decide on training programs.

Vice Chancellor King stated that there would still be audits done through the Office of Internal Auditing, including the state university payroll audit and the ISRS security work, which will provide an indication of training or procedure gaps. She also noted that the work of the financial monitoring and indicators was very robust. She agreed that they system was transitioning processes and would have to pay attention to changes in procedures in order to continue to leverage the value of the work, and she assured the committee that that would be done.

Trustee Van Houten stated that it was his belief that the success of the previous cycle of audits was because of the great effort on the part of the Finance Division and others, to educate and share the information with the campuses. He noted that if there was a risk it

would be that an outstanding issue wouldn't necessarily be communicated to all colleges and universities.

Ms. Buse stated that the functional area audits were determined from the audit risk assessment results. The recommendations that may come out of those functional area audits will more closely align with specific system office divisions and will prompt potential training or changes to the system because there will be a more of a comprehensive look across all colleges and universities. She added that although it is a change in process, by moving to the functional area audits, there should be efficiencies in the audit process that may give better audit recommendations that will impact the entire organization.

Trustee Van Houten asked about the turnover rates for financial staff systemwide. Vice Chancellor King stated there had not been a spike in the rate of turnover. She added that they typically conduct four to six searches each year as staff take promotions or move out of state for other jobs. But she noted steady increase in the internal advancement amongst the Chief Financial Officers.

Ms. Buse continued by stating that a substantial increase in the number of fraud inquiry and investigation support, but none of those were for significant dollar amounts. She noted that staff did have to spend more time in this area, however, and she anticipated that trend would continue into the next year. Trustee Van Houten thanked Ms. Buse for her comments.

4. Roles and Responsibilities of the Audit Committee (Information Item)

Ms. Buse reviewed the board policies related to the Audit Committee or to the Office of Internal Auditing. She explained that the Executive Director of Internal Auditing reported directly to the Board of Trustees through the Audit Committee, with an administrative relationship to the Chancellor.

Ms. Buse reminded the committee that in November, members would receive the thirteen colleges and universities audited financial statements as well as the system financial statements. She reviewed the plan for distributing those statements to the members.

Ms. Buse stated that, as in prior years, the committee had been divided into two review teams. All of the five members would receive all audit statements, but the first group would be asked to concentrate reviewing six audited financial statements and the other group would be asked to concentrate reviewing the remaining seven audited financial statements. Trustee Van Houten would plan to review all fourteen reports. All audit committee members would be asked to review the systemwide audited financial statements as well as any college or university where a material weakness had been identified.

Trustee Van Houten noted that it had worked well in the past to receive the documents in two mailings so that committee members have adequate time to begin the work of reviewing the reports. He noted that there would also be a one page summary attached to each report and he suggested to members that it would be worthwhile for them to review each of those summary pages prior to the November committee meeting. Trustee Van Houten further noted that the audit committee was made up of experienced members who

had been through this process before.

Vice Chancellor King discussed the possibility of receiving the materials electronically to reduce the amount of paper that members would have to receive. Trustee Van Houten suggested that if there were members who wanted to receive the materials electronically they could make that request individually.

Ms. Buse explained that copies of the draft audited financial statements could be made available to any Board member who was interested in reviewing them, but that they would not be included in the board packet. Copies of the individual coversheets would be made available at the November meeting. She added the once the reports were released by the Board of Trustees, final versions would be made available on the Finance Division website.

Trustee Van Houten explained how the external auditors would come in to present the reports at the November committee meeting. He stated that in the past there had been an open discussion with the external auditors. He noted that the prior year discussion had related to minor issues because the audit reports had been excellent.

Trustee Benson noted that there had been an increase in student financial aid fraud at the two-year colleges. He asked if that trend was being seen at the four-year universities as well. Ms. Buse explained that the increase typically related to fraud rings or identity theft issues. She noted that two-year colleges were open access institutions where tuition was typically low, so the overage checks were larger, making them a target for that kind of fraud and theft.

Vice Chancellor King noted that there had been a continuing upward trend on financial aid reliance at both two and four year institutions. Trustee McElroy asked if that trend had been impacted by the move to direct lending. He asked if the system was able to capture more data now than it could when banks were the primary lender. Vice Chancellor King stated that the same information was available. She stated that the financial aid reliance was more closely related to the increase in the average PELL grant amounts and by an increased level of neediness among the student population.

The meeting adjourned at 11:11 a.m.

Respectfully submitted,
Darla Senn, Recorder