

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING MINUTES
January 17, 2012**

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

Audit Committee Members Absent: Trustee David Paskach.

Others Present: Trustees Duane Benson and Scott Thiss.

The Minnesota State Colleges and Universities Audit Committee held its meeting on January 17, 2012, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Chair Van Houten called the meeting to order at 8:34 a.m. and reviewed the agenda. *He asked for a motion to change the order of the agenda to accommodate the schedule of the Chancellor and Board Chair. There was no dissent and the motion carried.*

1. Approval of the Audit Committee Meeting Minutes

Chair Van Houten reviewed the highlights of the November meeting minutes. He noted that Trustee McElroy had asked for more information on the revenue fund in November, and he informed the committee that that information was scheduled to be on the Finance Committee agenda later in the day. Trustee Van Houten called for a motion to approve the November 15, 2011 Audit Committee meeting minutes. There was no dissent and the motion carried.

2. Board Committee Goals (Information Item)

Ms. Beth Buse, Executive Director of Internal Auditing, gave an update on this year's committee goal to research best practices in audit committees. She proposed a timeline that would allow the committee to discuss some of the research in April and make recommendations to future audit committees in June.

Trustee Van Houten asked how the University of Minnesota's audit function compared to the Minnesota State Colleges and Universities. Ms. Buse stated that she meets with the Audit Director at the University of Minnesota periodically and can bring more information about how the systems compare at the April committee meeting.

Trustee Van Houten asked if Ms. Buse had thought through the approach to the research. Ms. Buse stated that the Institute of Internal Auditors had a number of resources including a new publication called *Audit Committee Effectiveness and What Works Best*. She noted that some of the research wouldn't be applicable because the system was not a public company but she thought that some of the information would be helpful. She also noted that she would be attending a conference with the Association of College and University Auditors in February. She stated that that group had done some surveying to understand how audit committees work. She further stated that she planned to review other materials from external audit firms and their

practices with working with audit committees.

Trustee McElroy suggested that in addition to looking at other systems of higher education, Ms. Buse might want to refer to the Minnesota Council for Nonprofits which has a support function.

Ms. King added that she thought the timing of this effort was perfect because of all the reengineering that was going on in the financial management environment. She stated that it would give the system a real occasion to think about audit strategy as a partner with financial management strategy, and for the Board to come again to a degree of comfort with the amount of assurance it received through both channels.

3. Review External Audit Plan and Approve Any Changes (Action Item)

Ms. Buse reviewed the External Audit Plan and the recommendation for the next two years with a principal auditor giving an opinion on the systemwide financial statements, and external audit firms completing financial statement audits on the same thirteen colleges and universities.

Ms. Buse explained that one of the complexities with making any significant changes to the current plan was the fact that there were different contract periods in place with the principal auditor, six colleges and universities audits, and the seven remaining colleges and universities. To do any significant changes would impact the other contracts, particularly the principal auditor contract which requires the system to obtain 60% coverage on the dollars through other audits.

Ms. Buse stated that seven colleges and universities had expired contracts. She stated that she would recommend to the committee that the system go out for a Request for Proposal on those seven colleges and universities for a two year contract, rather than the traditional three year contract cycle that had been sought in the past.

Ms. Buse stated that there were plans for additional initiatives to be added to the shared services environment, and she added that it was unclear what the audit needs would be, once those expanded shared services have been implemented.

Ms. Buse stated that although the Office of the Legislative Auditor would always have the option to conduct internal control and compliance audits, the system was no longer contracting with them to do specific audit work. She stated that the Office of Internal Auditing has begun conducting internal control and compliance audits and she added that there would also be a more horizontal view of different internal control and compliance cycles which was a very different approach to how financial internal control and compliance reviews had been done in the past. She stated that two years would allow the Office of Internal Auditing to evaluate the impact of this different approach.

Ms. Buse reviewed the timeline, stating that she would come back to the committee in April with recommendations for external audit firms and would seek approval for those contracts. She further stated that she would work, along with Vice Chancellor King, to amend the principal auditor contract to add one year to the current contract term, so that all of the external auditing contracts would expire in two years, after the 2013 audit.

Ms. Buse stated that the advantage of having all of the contracts expire in the same year would allow for flexibility to make changes in the external audit plan should the Audit Committee decide there were advantages to making changes. She explained that there could also be pricing advantages to hiring a single audit firm for future audit work.

Trustee McElroy cautioned that it should not be presumed that the committee would choose to have the audit contracts expire at the same time forever. But he added that this plan would allow future committees to make decisions and have the most flexibility. Trustee McElroy stated that he was pleased to hear the discussion that shared services and enhanced concentration on the combined financial index indicator might lead some of the changes. Vice Chancellor King agreed the plan would give the system the maximum flexibility for designing the next ten years of audit strategy.

President Edna Szymanski, Minnesota State University Moorhead, stated that it would seem logical to wait to see how the colleges and universities will change the way they do business in light of how quickly the Campus Service Cooperative is progressing.

Ms. Buse stated that the impact of the audit approach related to financial internal control and compliance audits and the impact of the shared service initiative would be evaluated over the next two years. In addition, more research would be conducted to understand what other financial management strategies were occurring in similar systems around the country. Finally Ms. Buse stated that she would work with presidents to define alternatives to the traditional financial statement audit approach.

Trustee Van Houten noted that this new approach would allow for some complete control and compliance audits, and then when issues were discovered that might be systemic, a topic specific control and compliance audit could be done to target specific areas systemwide. He stated that although this was a big change in the audit approach, if it was determined that the new approach was not affective; the Audit Committee was prepared to take immediate steps to ensure the audit system remained sound.

Vice Chancellor King stated that although there had been tremendous value in the strategy that had been in place for the last ten years. She added that the past approach had added learning and training value across all of the campuses. But she further added that she was very excited about the opportunity to rethink the approach. She stated that the changes in the accounting system, in the administrative environment, and the improvements in the operating infrastructure over the last ten years, provide an excellent opportunity to reevaluate the approach. She added that the organization had come to a point where the board could make new decisions, with high confidence that it had an accurate understanding of the environment and the risks associated with its decisions.

Trustee Van Houten asked Ms. Buse to prepare a motion that specifically outlined the next steps for future external audits for colleges and universities.

Trustee Van Houten called for a motion to approve the external audit plan, with the understanding that the motion would be fleshed out in greater detail before being presented to the

full board. *Trustee Vekich made the motion, Trustee Krinkie seconded.*

COMMITTEE ACTION

The Audit Committee recommends that the Board of Trustees adopt the following motion:

RECOMMENDED MOTION [as revised by Ms. Beth Buse]

The Board of Trustees endorses the following recommendations offered by the Executive Director of Internal Auditing and Vice Chancellor – CFO regarding the next steps for future external audits for colleges and universities.

- *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 two universities and five colleges with expired contracts for fiscal years 2012 and 2013. The Board of Trustees will take action on a recommended motion for the appointment of external audit firms for the seven institutions in April 2012.*
 - *The Office of Internal Auditing and the Finance Division will work with the principal auditor (CliftonLarsonAllen) to amend their contract for one year, to expire after the fiscal year 2013 audit.*
4. Review Results of Southwest Minnesota State University Audit (Monitoring Item)
The Audit Committee took a brief recess to wait for Chancellor Steven Rosenstone to arrive. When the committee reconvened, Ms. Buse introduced Mr. Eric Wion, Deputy Director for Internal Auditing, and Mr. Ron Wood, Interim President of Southwest Minnesota State University. President Wood introduced Ms. Deb Kerkeart, Interim CFO at Southwest Minnesota State University.

Mr. Wion stated that this was the first internal control and compliance audit at Southwest Minnesota State University in over ten years. He provided an overview of the audit objectives and the scope of the audit. He stated that with the exception of the area of supplemental revenues, the university generally had adequate controls and complied with significant financial related legal matters, policies and procedures.

He stated that the audit report identified eight individual audit findings or control deficiencies. The first four findings were in the area of receipts, and three of those four were in the area of supplemental revenues. Mr. Wion reviewed the audit findings.

President Wood thanked the auditors and told the committee that the internal control and compliance audit had been done in a very professional manner. He added that the Office of the Legislative Auditor had done a control and compliance audit at Minnesota West Community and Technical College when he was the president there and he thought it was a seamless transition from the work done by the Office of the Legislative Auditor to the internal control and compliance work done by the Office of Internal Auditing. President Wood stated that he agreed with the audit findings and that the university was working to make corrections in those areas.

Trustee McElroy asked about the magnitude of dollars that were affected by the receipts that

were not deposited in a timely way in finding one. Mr. Wion stated that he thought those dollar amounts were limited to a few hundred dollars. President Wood explained that receipts from a weekend event would be held in a safe until Monday, so there would be a one or two day delay getting the receipts deposited. He stated that they were making corrections to that process.

Trustee McElroy asked if there was a separate audit that would look at the payroll issues that were not addressed in the control and compliance audit at Southwest Minnesota State University. Ms. Buse stated that the Office of Internal Auditing would be conducting a separate audit of all state university payroll.

Trustee Krinkie asked if there was a systemwide inventory policy tracking inventory. Vice Chancellor King stated that there was a systemwide policy which expects the campuses to do an inventory and maintain the records in the fixed assets system, so that when systemwide financial statements are conducted there is an accurate representation of the material depreciable assets. She explained that what happened at the university was simply just a passage of time beyond policy expectations for when the fixed assets inventory was updated. She added that the university knew that the inventory needed to be updated and they were taking steps to repair it.

Trustee Krinkie noted that there were some large items that appeared as if they should have been on an asset depreciation schedule for a long time. Ms. Kerkeart stated that there were some items, such as a 1970 pay loader on the list that predated the original 1972 inventory system. She was not sure why it had never been added to the inventory. She added that there were a couple other leased items which had been purchased but not recorded correctly into the accounting system. She stated that the university was going back and correcting those errors.

Trustee Krinkie asked how computer equipment and similar lower cost, high risk items, were tracked at facilities across the state. Vice Chancellor King stated that it was typical for the campuses to put things like computers on their inventory system, to assign them a fixed asset number and to track them pretty carefully. She further stated that the Office of Internal Auditing had a process for investigations into concerns about theft. But she agreed that at some point, a judgment had to be made about how hard to work to protect assets and at what dollar value.

Finally, Ms. Buse introduced Ms. Melissa Primus who was the audit coordinator responsible for the overall audit and worked with Mr. Wion to put the report together, and Ms. Marita Hickman who worked on the audit, specifically the purchasing card area.

5. Review Legislative Auditor report on Metropolitan State University (Monitoring Item)
Ms. Buse introduced Mr. Dave Poliseno from the Office of the Legislative Auditor, President Sue Hammersmith from Metropolitan State University and Mr. Murtuza Siddiqui, CFO/VP Administration and Finance. Mr. Poliseno introduced Ms. Cecile Ferkul, Deputy Legislative Auditor and Mr. Carl Otto, the auditor in charge on the audit.

Mr. Poliseno outlined the scope of the internal control and compliance audit of Metropolitan State University. He stated that the conclusion was that the university generally had adequate internal controls over their major financial activities. He noted however, that the university did not always comply with legal provisions of either MnSCU policy or its own policy, including

delegation of authority, tuition and fee rates, and leave balances. He added that there were also two outstanding audit findings from a report that was issued in 2002.

Mr. Polisenio noted that although a number of the findings in the report looked similar to findings previously issued in reports from other institutions, he stated that Metropolitan State University was doing a much better job than other institutions that had been audited. He stated that these issues rose to the level of being reported but they did not necessarily expose the university to any kind of serious risk.

Mr. Polisenio walked through a few of the findings, starting with finding one which concerned the university not adequately assessing its business risks or monitoring the effectiveness of its internal controls. He stated that they recognized that that university documented and assessed its risk in internal controls over a number of financial cycles related to reporting and they did a good job of identifying the risks as they built financial statements. However, the Office of the Legislative Auditor believed that this should go further than just the financial statement controls, into the operational and compliance responsibility. He noted that Metropolitan State University had eleven findings in this report and if they had done a better job assessing and monitoring those risks, many of those risks could have been detected and corrected before the audit was conducted.

Trustee Van Houten asked Ms. Buse to comment on the risk assessment and using identified risks to ensure there were policies in place that will deal with those risks.

Ms. Buse stated that she, along with Vice Chancellor King and their staff, would be looking at the business process documentation that colleges and universities have to determine if there were enhancements that could be made. She added that they had asked the Office of the Legislative Auditor for examples of state agencies who were doing this well, and planned to contact those state agencies to see what they were doing differently and identify best practices that could be used by the system. Ms. Buse further stated that institutions would always have to work to ensure that their documentation was up to date for their changing processes from a continuous improvement and a succession planning standpoint.

Vice Chancellor King stated that there were no critical findings in the audit which meant that there were no findings that would suggest that there was a material risk of financial mismanagement or malfeasance going undetected by the university. She stated that the question then was how much deeper did the board want to go to buy assurance of adequate internal controls. That was a judgment the board would have to make and these conversations would move the committee and staff toward that end. But she cautioned that it would be wrong to conclude from this finding that there was a material exposure at the university.

Trustee Thiss asked about the findings related to purchasing cards. He noted that the findings in the audit were immaterial, but he expressed an overall concern about the control systems and he asked if there were policy issues that should be revisited.

Ms. Buse stated that in the case of Metropolitan State University, the university had only one purchasing card and they needed to tighten controls from a continuous improvement point of

view. She stated that she, Vice Chancellor King and Associate Finance Director Colin Dougherty had begun to have conversations about the involvement of the Cooperative and the Office of Internal Auditing in working to develop standard best practices related to purchasing cards.

Mr. Poliseno reviewed the second finding related to computer security. He noted that the university had done a better job than other colleges and universities in controlling unnecessary and incompatible access to their system, and he added that he thought the improvement was due in part to the security system.

Mr. Poliseno reviewed the third finding related to tuition rates and fees that were charged which were different from the amounts approved by the board. Trustee Oliveira expressed his concern. He asked if students had been overcharged and if they had been reimbursed.

Mr. Siddiqui explained that the error was one of rounding small amounts of change up to the nearest dollar when the tuition amounts were presented to the Board of Trustees. He explained that students were charged at the correct lower tuition rate and not the rounded up number. Trustee Thiss stated that the colleges and universities needed to be careful that what they presented to the board for tuition rates were correct. He added that often times the discrepancies might not be large, but that there should not be any discrepancies. Mr. Siddiqui stated that the university understood and in the future it would be careful with how those calculations were presented.

Mr. Poliseno reviewed the fourth finding related to inaccuracies in sick and vacation leave. Trustee Thiss noted that he was not happy to see these kinds of findings coming back in different audits.

Trustee Van Houten noted that the majority of the findings fell into one of three generalized categories. The first category was identifying risks and having adequate controls, the second was tuition calculations and the third category was pay calculations. He stated that the work of the Campus Service Cooperative in these three areas would have a huge impact on efficiency, accuracy and fairness of financial transactions throughout the system.

Chancellor Rosenstone agreed that the opportunities the Campus Service Cooperative provided for standardization of practices that could be used in a uniform and more effective way across the system were very exciting and promising. He stated that although there were no material findings, he was very grateful to the Office of the Legislative Auditor for suggesting places where the system might want to be concerned about opportunities for things to go wrong in the future. He added that findings that seemed to reoccur periodically over time ought to be brought to Leadership Council for a broader discussion, so that they could be made a central focus of the work happening in the Campus Service Cooperative around business practices.

Chancellor Rosenstone stated that when new processes were identified through the Campus Service Cooperative, they would be in a position to provide an assessment to the board so that the board could provide its judgment and guidance about the direction that it wanted to go. He stated that keeping a clear balance in the materiality of the risks or the opportunities that might

exist for risk, and the cost of buying that insurance was a very prudent discussion going forward.

Trustee Thiss stated that audits always look backwards and that the board had to deal with the facts that were in front of them. He added that he and Trustee Van Houten had been on the Audit Committee for six years and many of the same kinds of findings reoccurred. He cautioned the future committee members that at some point those findings should stop appearing.

Trustee McElroy stated that the appropriate investment was to take advantage of the learning opportunity and how much risk was appropriate going forward. He agreed that he got frustrated by the repetition of the kind of chronic condition they had seen over the past six years and he hoped they could have a systemic discussion. He stated that he had some frustration with finding one, about the definition of adequate, but he added that it provoked a worthwhile discussion on the board which was helpful. He noted that although the system might not be able to afford perfect, it should work toward “pretty darn good”.

President Hammersmith stated that she appreciated the diligence of the Legislative Audit Team, and the university regarded the audit as an opportunity to do continuous improvement. She stated that they were happy to have had the opportunity to go through the audit experience.

The meeting adjourned at 10:16 a.m.