

MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING MINUTES
June 19, 2012

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

Audit Committee Members Absent: Trustee David Paskach.

Others Present: Chancellor Steven Rosenstone, Trustee Scott Thiss, Chair; Trustee Brett Anderson, Trustee Duane Benson, Trustee Cheryl Dickson, Trustee Jacob Englund, Trustee Alfredo Oliveira, Trustee Tom Renier, Trustee Louise Sundin, President Pat Johns, and President Edna Szymanski.

The Minnesota State Colleges and Universities Audit Committee held its meeting on June 19, 2012, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Chair Van Houten called the meeting to order at 10:30 a.m. and reviewed the agenda.

1. Approval of the Audit Committee Meeting Minutes

Chair Van Houten reviewed the highlights of the May meeting minutes. Trustee Van Houten reminded members that when the audit plan was proposed, it was agreed that there would be minimal time set aside for special projects this year, but that if additional projects came up during the year, the budget could be revised to accommodate those needs. *Trustee Van Houten called for a motion to approve the May 16, 2012 Audit Committee meeting minutes. There was no dissent and the motion carried.*

2. Approve Annual Audit Plan for Fiscal Year 2013 (Action Item)

Ms. Buse highlighted key points in the annual audit plan for fiscal year 2013. She stressed the importance of flexibility in the plan. She reviewed the core services that the Office of Internal Auditing would continue to provide in the coming year.

Trustee Van Houten asked for clarification of the difference between financial statement audits and internal control and compliance audits. Ms. Buse explained that the object of a financial statement audit was to provide an opinion on the financial statements. She further explained that external auditors gain an understanding of internal controls and complete minimal testing. They do not go into the level of detail obtained with an internal control and compliance audit. Trustee Van Houten noted that it was inaccurate to think that there had not been any audit coverage at colleges or universities that had not received an internal control and compliance for several years. Ms. Buse agreed and stated that an internal control and compliance audit provided assurance that the controls that management had put in place were working as intended, but other audit coverage had been occurring.

Trustee McElroy asked if there would be a need to do an internal control and compliance audit

of the campus service cooperative or if the control and compliance work would occur at the campuses for which the work originated. Ms. Buse explained that decisions would have to be made, but in instances where the work was being done by the campus service cooperative, then the audit could be done at the campus service cooperative. She noted that as work shifts, the audit universe would become more simplified and more audit work would be done at the campus service cooperative rather than at the individual colleges and universities.

Ms. Buse briefly described the functional areas being proposed for fiscal year 2013, and reviewed the proposed information technology audits. Ms. Buse described a new proposal for a capital construction audit pilot. Trustee McElroy applauded the proposal. He relayed information he had about a similar program in the state of Illinois. He noted that capital construction represented large dollar amounts and knowing that it could be audited could improve results for the taxpayers and the institutions. Ms. Buse finished by discussing advisory services, other required audits and the audit committee schedule for 2013.

Trustee Van Houten called for a motion to approve the Annual Audit Plan for Fiscal Year 2013. *Trustee McElroy made the motion, Trustee Krinkie seconded. There was no dissent and the motion carried.*

COMMITTEE ACTION:

On June 19, 2012, the Audit Committee reviewed the Fiscal Year 2013 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 2013.

3. Review Results of University Personnel and Payroll Internal Control and Compliance Audit (Information Item)

Ms. Buse invited Interim Associate Vice Chancellor Sheila Reger to the table and introduced Ms. Melissa Primus the lead audit coordinator for the audit. She thanked the presidents and leadership for excellent cooperation while conducting the audit work.

Ms. Buse provided a brief background and then reviewed the audit objectives, the audit scope and the areas of focus. She stated that controls were generally adequate and for the items tested, universities generally complied with applicable policies, procedures and employee bargaining agreements and contracts. She noted that the report did highlight some areas where there were deficiencies, but overall, the results were very good.

Ms. Buse briefly reviewed the first three findings in the report. She stated that the remaining findings were recommendations where controls could be improved and might add efficiencies to processes.

Trustee Van Houten believed that the first two findings implied the need for system level policies. Vice Chancellor King stated that she did not believe there were policy issues that needed to be addressed, but rather the issues in the first three findings could be addressed

through system procedures. Ms. King stated that this was the first horizontal audit which looked at audit across business cycles at multiple entities. She stated that it was an exciting format from an efficiency and a large conclusion standpoint to be able to see patterns and practices across multiple operating environments.

Trustee Krinkie expressed concerns about the timeliness of notification to the Office of Internal Auditing and to the system office when issues develop. Ms. King stated that there was not a standard which required the Office of Internal Auditing to be notified at the first sign of an error. Ms. King explained that issues develop every day, and the colleges and universities have delegated authority to run their organizations and fix their own problems. She further noted that once it was determined that the errors were not just at a single location, then the Office of Internal Auditing was notified. Trustee Krinkie expressed concern that there was no guidance in place for institutions to know at what point an issue should be raised to the system level. Ms. King stated that in her opinion it was important to first examine what the system office needed to know about and then to determine if the channels were in place to ensure that those issues would be reported. Trustee McElroy pointed out that was a significant difference between an institution discovering an error made locally that they could fix quickly and an error that they might discover in a tool that is distributed systemwide. The expectation would be that those types of errors would be communicated upward very quickly. Ms. King agreed.

Trustee McElroy asked for an explanation of how the error with the Board Early Separation Incentive payouts occurred. Interim Associate Vice Chancellor Reger explained that a spreadsheet was distributed to be used as an estimator for college and university staff to use when working with employees who were considering retirement. The estimator was later used incorrectly as a calculator to determine actual payout amounts for employees. She noted that when that result was first reported it was thought to be very isolated. As more discovery was done, the whole big picture became more clear.

Ms. Reger noted that with issues of potential fraud or misconduct or an indicator of something that requires a deeper look, notification happens very quickly. But the more common employee mistake that can be uncovered and readily fixed, does not have a policy requirement to notify the Office of Internal Auditing. There was a deep understand that these issues involve employee pay, and she noted that it was with anguish when discoveries were made about overpayments or underpayments. Trustee Van Houten commented, however, that in the absence of a policy, there was a lot of individual discretion.

Trustee McElroy stated that notification could be done to the Human Resources division or to the Finance Division as appropriate and not necessarily always to the Office of Internal Auditing. He then asked how the errors would be corrected in terms of recovery, so that the taxpayers would come out whole at the end. Ms. King explained that there were about fifty employees affected by the error for a total in recovery of about \$165,000. She noted that all the errors were correctable.

Chancellor Rosenstone stated that it would be unlikely that a system would ever be able to build or afford to build a process that had zero errors. The question was whether this level of error was within the tolerance of the kind of errors that will be found in any system that could be

built, and secondly, whether the internal control measures were adequate to catch the errors.

Trustee Krinkie agreed, but again noted his concern about the lack of guidance around the issue of notification. Chancellor Rosenstone agreed and noted that to be able to detect whether an error is an isolated error or more systematic, would require that there was a way to aggregate individual errors when they occur to determine if similar errors were occurring in other places.

Ms. Reger noted finally that the issue was being addressed very carefully and systematically. She added that there would be a full report when the issue was concluded.

Trustee Van Houten introduced Professor Don Larsson, president of the Inter Faculty Organization who asked to address the committee. Professor Larsson thanked the committee, Ms. Buse and Ms. Reger for their work on the report. He praised it for content that touched on many issues that have concerned the IFO and individual faculty associations for a number of years. He noted that one of their most consistent complaints has been the lack of consistencies among the seven universities in terms of issues relating to work load and compensations. He stated that he thought this report offered a profound opportunity for the system office to finally grapple with issues in a way that could provide less frustration on the part of faculty members and individual faculty associations.

Mr. Larsson noted that some issues concerned contractual interpretation and those were issues that would need to be resolved through negotiations. Trustee Van Houten commented that he hoped progress could be made in the next year to simplify the contracts and reduce the interpretation difficulties. Trustee Krinkie recommended that members of the bargaining group and management read this audit before they enter into negotiations.

Trustee Dickson praised the audit as a sign of the maturity of the system to be able to do this type of cross system audit work. She expressed excitement about other areas that might benefit from the same type of cross business cycle audit. She noted that more we can standardize practices and make them clear, the easier we make it on overworked staff.

4. Board Committee Goal Update (Information Item)

Ms. Buse gave a brief update on this year's committee goal to research best practices in audit committees. She noted that some of the research had been incorporated into the audit plan that was discussed. Finally she noted that Chancellor Rosenstone would be bringing the risk management discussion to the full board in fiscal year 2013.

Relating to board composition and expertise, Trustee Van Houten noted that there had been a thoughtful decision in the past to hold the audit committee membership to five members with background in audit and finance. He observed that that decision had worked well over the years and he would recommend that practice going forward. Trustee Thiss complimented and expressed his appreciation to Trustee Van Houten for his six years of service on the audit committee and for his efforts as chair of the committee for the last two years.

The meeting adjourned at 11:59 p.m.