



**AUDIT COMMITTEE
APRIL 16, 2013
2:00 P.M.**

**MCCORMICK ROOM
30 7TH STREET EAST
SAINT PAUL, MN**

Please note: Committee/Board meeting times are tentative. Committee/Board meetings may begin up to 45 minutes earlier than the times listed below if the previous committee meeting concludes its business before the end of its allotted time slot.

- (1) Minutes of January 15, 2013 (pages 1-5)**
- (2) Review Results of Financial Aid Audits (pages 6-15)
- (3) Review Results of Internal Control and Compliance Audit of Banking Controls (pages 16-17)

Members

Phil Krinkie, Chair
Ann Anaya, Vice Chair
Brett Anderson
Alfredo Oliveira
Michael Vekich

Bolded items indicate action required.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING MINUTES
January 15, 2013**

Audit Committee Members Present: Trustees Philip Krinkie, Chair; Ann Anaya (by phone for the last 8 minutes), Brett Anderson, Alfredo Oliveira, and Michael Vekich.

Audit Committee Members Absent: none.

Others Present: Chancellor Steven Rosenstone, Trustee Clarence Hightower, Chair; Trustee Duane Benson, Trustee Alexander Cirillo, Jr., Trustee Louise Sundin, President Pat Johns, and President Edna Szymanski.

The Minnesota State Colleges and Universities Audit Committee held its meeting on January 15, 2013, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Chair Krinkie called the meeting to order at 2:04 p.m. and reviewed the agenda.

1. Approval of the Audit Committee Meeting Minutes

Trustee Krinkie called for a motion to approve the October 17, 2012 Audit Committee meeting minutes. There was no dissent and the motion carried.

2. Review and Approve Release of the Audited Financial Statements (Action Item)

Ms. Beth Buse, Executive Director of Internal Auditing, introduced Mr. Neal Dawson, Information Technology Audit Manager for the Office of Internal Auditing. Trustee Krinkie welcomed Mr. Dawson.

Ms. Buse began by stating that typically the review and approval of the release of the audited financial statements was discussed at the November audit committee meeting, but there had been a delay this year getting information on cash numbers from Minnesota Management and Budget. Ms. Buse stated that audit committee members had received two large binders that contained all of the audited financial statements, as well as the systemwide audit, the revenue fund and the supplement to the financial statements. Copies of the systemwide audit, supplement to the audit, and summary sheets for each of the audited financial statements were handed out to other trustees. She added that also included with the handouts were an opinion from CliftonLarsonAllen, required communication material, and a copy of the presentation. Finally Ms. Buse reviewed the agenda for the meeting.

Ms. Buse introduced Mr. Tom Koop, an audit partner with CliftonLarsonAllen, who in turn introduced Mr. Craig Popenhagen who was the partner-in-charge of the revenue fund and the single audit student financial assistance.

Mr. Popenhagen reviewed the process for the systemwide financial statement audit and discussed

materiality thresholds. He stated that there were no internal control issues to report.

Mr. Koop reviewed the audit scope and coverage of the systemwide audit. He stated that all financial statements were fairly stated, clean opinions, with no material weaknesses or significant deficiencies in internal controls and no compliance issues.

Mr. Popenhagen reviewed other required communications. He stated that there had been no difficulties in completing the audit. He stated however that the State Treasury account balance delayed the finalization of the report by a couple of months. Finally he noted that despite the delay, there had been no changes in the cash numbers on any of the statements in the Minnesota State Colleges and Universities system.

Trustee Krinkie expressed his appreciation to the external audit partners, in light of the state accounting system delay, for their willingness to quickly work through the process to deliver the audited financial statement results to the committee. He also congratulated the staff throughout the system and at the system office for their hard work that produced the clean audit report. He noted that it was an outstanding accomplishment.

Mr. Koop reviewed the three Levels of Financial Management as described by the Government Finance Officers Association's "Financial Management (FM) Tool." Mr. Koop stated that financial strength, stability and a solid reporting process at the system level as well as at the college and university level would continue to be key to the success of the organization.

Vice Chancellor King introduced Ms. Denise Kirkeby, the Director of Financial Reporting for the system. Ms. King stated that the undertaking was successful only because staff at the campuses was dedicated to it and staff throughout the system maintained a very high standard of professional performance. She expressed her gratitude to Ms. Kirkeby and Mr. Metody Popov, the Accounting Director, for their dedication and hard work.

Ms. King stated that she planned to summarize the results for the audit committee, and she would further discuss the financial condition at the college and university level at the finance committee the following day. Ms. King stated that the work of the audit committee and the culture and tone of expectation that the committee had set over the years has been a very powerful force in building the financial reporting, integrity and discipline that exists across the system.

Ms. King reviewed the systemwide assets, liabilities and net assets and the systemwide changes in financial position between fiscal years 2011 and 2012. She continued by explaining the systemwide revenues, expenses and net assets, and finally she reviewed components of the net operating revenue. Ms. King stated that the colleges and universities had balanced their budgets in fiscal 2012 in the presence of very substantial state aid reductions. She added that budget reserves were preserved which was critical in terms of risk management. Finally, she added that the system continued investments in infrastructure across the state, which would be core to both present and future core success.

Mr. Popenhagen stated that an unqualified opinion had been issued on the Revenue Fund

financial statements. They were fairly stated in accordance with accounting principles. No significant deficiencies or material weaknesses had been identified in internal controls. He stated that the control environment was very strong.

Mr. Koop presented information on the financial statement audits that his firm conducted for Metropolitan State University, Minneapolis Community and Technical College, Rochester Community and Technical College and Southwest Minnesota State University. Some of the key points shared by Mr. Koop were as follows:

- Unqualified Opinions issued for all audits.
- No internal control or compliance issues and no material weakness were noted.

Mr. Koop noted that there was one significant deficiency at Rochester Community and Technical College. He stated that there was a revenue recognition issue that was discovered by the new Chief Financial Officer at the college, relating to some revenue recorded in prior years for space rental due from Winona State University. There was also a small item as part of a construction project that was put into repairs and maintenance and should have been capitalized at the end of the project. Mr. Koop stated that the good news was that issues were detected by the college's own staff, and he added that President Supalla's decision to bring in Mr. Steve Schmall as CFO, has strengthened the financial reporting process at the college.

Trustee Krinkie welcomed Mr. Steve Wischmann, partner with the firm of Kern, DeWenter and Viere. Mr. Wischmann presented information on the financial statement audits that his firm conducted for Hennepin Technical College, Minnesota State University, Mankato, Minnesota State University Moorhead, Normandale Community College, St. Cloud State University and Winona State University. Some of the key points shared by Mr. Wischmann were as follows:

- Unqualified Opinions issued for all audits.
- No internal control or compliance issues and no material weakness were noted.

Trustee Krinkie welcomed Mr. Darrel DeKam, partner with the firm of Baker Tilly Virchow Krause. Mr. DeKam presented information on the financial statement audits that his firm conducted for Bemidji State University, Century College, and Minnesota State Community and Technical College. Some of the key points shared by Mr. DeKam were as follows:

- Unqualified Opinions issued for all audits.
- No internal control or compliance issues and no material weakness were noted.

Mr. DeKam noted that one of the bigger changes at Bemidji State University was that there was more activity going on at the foundation level. Trustee Krinkie stated that as state dollars become reduced, there was an increased desire by the campuses and by the communities to look to the foundations or to revenue funds in order to supplant dollars they previously had received for projects. He noted that as part of their due diligence the board and the system would need to be cautious and careful about what was being done by the foundations and the amount of projects that were being undertaken with revenue funds.

Trustee Oliveria expressed his appreciation to the staff for their hard work. He noted that for a system as large as the Minnesota State Colleges and Universities, with the number of employees and the number of transactions that occurred each day, this report was excellent. He also noted

that the presidents had worked hard to use limited appropriations to the benefit of their students, adding that they had great ideas and great vision. He thanked everyone listening on the campuses for their hard work.

Mr. Koop presented information on the iSeek audit results which was new to the committee. Some of the key points shared by Mr. Koop were as follows:

- Unqualified Opinion for June 30, 2010; 2011; and 2012.
- Material Weakness for year ended June 30, 2012
 - Related to prior period adjustment for recognition of revenues in the incorrect period (FY 11 vs. FY12).
 - Materiality level at approximately \$20,000
- Process has been adjusted to recognize lower thresholds of materiality.

Mr. Koop noted that material weaknesses involve weaknesses in internal control over dollars that are material to the organization. He noted that the dollar level was fairly low and no money was missing, but because the materiality threshold was so low for iSEEK, it becomes by audit standards, a material weakness.

Ms. King pointed out that the system had nine of these fiscal agency relationships that were not really apparent in the footnotes of the financial statements because even collectively they are not material. She noted that they were a substantial amount of work for not many dollars. She added that the system needed to be thoughtful about taking on these responsibilities with each additional one because they brought with them idiosyncratic layers of management and oversight.

Trustee Krinkie asked about the audit responsibility for the other fiscal agency agreements. Ms. King stated that she would have to look at each fiscal agency agreement but she added that the iSeek contract specifically called for audited financial statements, which was not generally the case with other agreements.

Trustee Krinkie again thanked everyone for their hard work, noting that just the fact that the system was able to have clean audits for many years was significant and the work of many hands.

Trustee Krinkie called for a motion to approve the release of the Audited Financial Statements for 2012. *Trustee Vekich made the motion, Trustee Anderson seconded. There was no dissent and the motion carried.*

COMMITTEE ACTION:

The Audit Committee has reviewed the fiscal year 2012 audited financial statements and discussed them with representatives of management and the external auditing firms. The committee recommends that the Board of Trustees adopt the following motion:

RECOMMENDED MOTION:

Based on the review and recommendation of the Audit Committee, the Board of Trustees approves the release of the fiscal year 2012 audited financial statements as submitted.

The meeting adjourned at 4:00 p.m.

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: April 16, 2013

Agenda Item: Review Results of Financial Aid Audits

Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring

Information

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

Board Policy 1A.2. Part 5, Subpart E charges the Audit Committee with overseeing the work of external auditors.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing
Christopher Halling, System Director for Financial Aid
Craig Popenhagen, Principal with CliftonLarsonAllen, LLP

Outline of Key Points/Policy Issues:

- The auditor's report on compliance for the major federal award programs expressed an unqualified opinion.
- The audit report contains 3 isolated compliance findings related to certain federal financial aid regulations.
- Minnesota Office of Higher Education regularly conducts audits of colleges and universities.

Background Information:

- Federal law requires an annual audit of major federal financial assistance programs, including the student financial aid programs.
- MnSCU received over \$370 million in federal grants and students borrowed nearly \$772 million of federal loans in fiscal year 2012.
- The firm of CliftonLarsonAllen, LLP conducted the audit as part of its responsibilities as principal auditor for MnSCU.

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

BOARD INFORMATION
REVIEW RESULTS OF FINANCIAL AID AUDITS

1 **BACKGROUND**


2
3 Copies of Minnesota State Colleges and Universities Schedule of Expenditures of Federal
4 Awards for the Year Ended June 30, 2012 were provided to members of the Board of Trustees in
5 the Board materials for the April 16, 2013 meeting. Additional copies will be made available at
6 the meeting. The report was prepared by the firm of CliftonLarsonAllen LLP as part of its
7 responsibilities as principal auditor for the Minnesota State Colleges and Universities. The
8 results of this report will be incorporated into the State of Minnesota’s Single Audit report that is
9 planned for a late release in May. Once released, copies of that report will be available on the
10 Minnesota Management and Budget web site at (<http://www.mmb.state.mn.us/4057>).

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12 The Minnesota Office of Higher Education conducts regular program reviews of state paid
13 financial aid administered by MnSCU colleges and universities.

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15 The attached PowerPoint presentation provides a summary of audit work completed on federal
16 and state student financial aid programs.

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36 *Date Presented to the Board of Trustees: April 17, 2013*




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Minnesota State Colleges and Universities
Review Results of Financial Aid Audits

Beth Buse, Executive Director of Internal Auditing
Christopher Halling, System Director for Financial Aid
Craig Popenhagen, Principal with CliftonLarsonAllen LLP

April 16, 2013

The Minnesota State Colleges and Universities system is an Equal Opportunity employer and educator.



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**REVIEW 2012 FEDERAL
FINANCIAL ASSISTANCE
AUDIT REPORT**

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Background

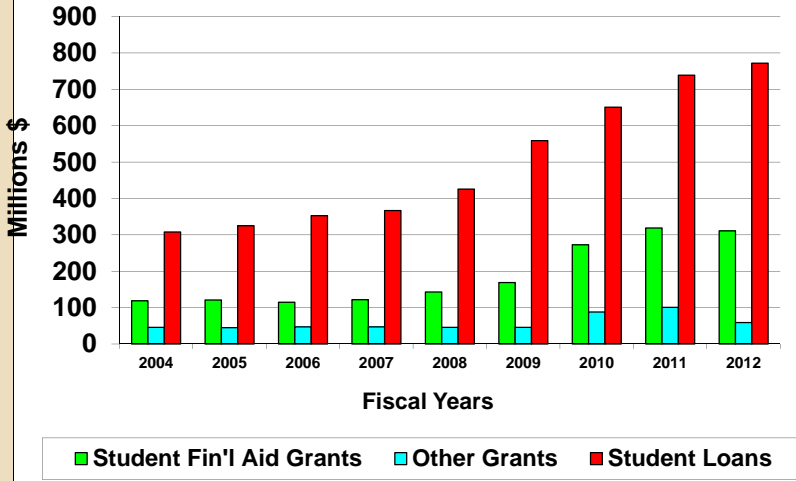
- Annual audit required by federal law
- Focus on major programs
 - Student Financial Aid
- Audit work performed by Principal Auditor (CliftonLarsonAllen)
- Results will be included with State of Minnesota Report
 - Planned late release in May 2013

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MnSCU Federal Financial Assistance: 2004 to 2012



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Note: Student Loans Exclude Perkins and Nursing Loans



Minnesota STATE COLLEGES & UNIVERSITIES

Fiscal Year Comparison – Federal Financial Aid Grants

Program Title	FY12 Total	FY11 Total	Amount Change	% Change
Federal Pell Grant Program	\$297,167,750	\$306,142,887	(\$8,975,137)	-3%
Federal Work-Study Program	\$7,179,090	\$7,071,092	\$107,998	2%
Federal Supplemental Education Opportunity Grants	\$6,089,367	\$6,202,142	(\$112,775)	-2%
Academic Competiveness Grants	\$69,646	\$3,801,108	(\$3,731,462)	-98%
National Science and Math Talent (Smart) Grants	\$45,150	\$1,999,579	(\$1,954,429)	-98%
Teacher Education Assistance for College and Higher Ed. Grants	\$454,803	\$335,663	\$119,140	35%
	\$311,005,806	\$325,552,471	(\$14,546,665)	-4%

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Minnesota STATE COLLEGES & UNIVERSITIES

Fiscal Year Comparison – Federal Loans

Program Title	FY12 Total	FY11 Total	Amount Change	% Change
Federal Direct Student Loans	\$771,876,888	\$739,473,470	\$32,403,418	4%

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FY 2012 Federal Student Financial Aid Findings

- 3 Findings & **NO** Questioned Costs
 - One college did not report a reading tutor in the Fiscal Operations Report and Application to Participate (FISAP)
 - One college did not timely report changes in governance within the required 10 days.
 - One college did not properly report the disbursement date of a Pell disbursement in COD.

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Prior Year (2011) Federal Student Financial Aid Findings

- 3 prior findings
- All were resolved

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Federal Financial Aid Finding History

Fiscal Year	Total Findings	Questioned Costs
2006*	6	\$1,479,644
2007	8	10,323
2008	3	0
2009	5	4,567
2010	4	4,698
2011	3	0
2012	3	0
Total	29	\$1,499,232

* - includes questioned costs from USDOE program reviews

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MINNESOTA OFFICE OF HIGHER EDUCATION AUDIT WORK

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Background – Minnesota Office of Higher Education

Student Financial Aid Programs Administered by MOHE	Total FY 2011 Awarded	MnSCU FY 2011 Awarded	MnSCU %
State Grant	\$119,829,000	\$36,849,000	31%
Postsecondary Child Care Grant	\$6,524,000	\$5,054,000	77%
Public Safety Officer's Survivor Grant	\$74,000	\$16,000	22%
Minnesota GI Bill	\$568,000	\$342,000	60%
Minnesota Indian Scholarship	\$1,843,000	\$1,218,000	66%
Minnesota State Work Study	\$19,599,000	\$9,673,000	49%
Student Educational Loan Fund (SELF)	\$69,700,000	\$25,171,000	36%

Also, administers tuition reciprocity agreements

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Background – Minnesota Office of Higher Education

- Distinctive program eligibility requirements for most programs
 - Minnesota Residency
 - Minimum enrollment status requirements
 - Education term limits
- Other program specific requirements
 - Postsecondary Child Care Grant Program
 - Minnesota Indian Scholarship

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Background – Minnesota Office of Higher Education

- Program Reviews (audits)
 - Audit manager and two audit staff
 - Conduct rotating audits of all MN colleges and universities (public, private non-profit and private for-profit)
 - Conduct audit work on individual colleges and universities, not the system as a whole
 - Current goal – conduct reviews a minimum of once every four years

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Audits - Minnesota Office of Higher Education

Minnesota State Colleges and Universities Audit Finding History

Fiscal Year	Audit Reports Issued	Total Recommendations	Total Amount Repaid
2008	7	29	\$33,648
2009	12	29	\$16,523
2010	15	67	\$20,310
2011	3	22	\$3,882
2012	12	74	\$44,616
2013*	6	68	\$5,322
Total	55	289	\$124,301

* - Thru March 2013

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Audits - Minnesota Office of Higher Education

- **Audit Finding Observations**
 - Most issues noted in Child Care and State Grant Programs
 - Most audit findings are a result of manual calculation errors or incomplete information for determining program eligibility
- **Follow-up**
 - Internal Audit has been tracking and following up on findings since 2003

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: April 16, 2013

Agenda Item: Review Results of Internal Control and Compliance Audit of Banking Controls

- Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring
- Information

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

Review results of the internal control and compliance audit of Banking Controls conducted by the Office of Internal Auditing.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing
Eric Wion, Deputy Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- The results of the audit will be presented and discussed at the April 16, 2013 Audit Committee meeting.

Background Information:

- In June 2012 the audit committee approved the Fiscal Year 2013 Internal Auditing Annual Audit Plan. As part of that plan, the Office of Internal Auditing conducted an internal control and compliance audit of Banking Controls.

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

BOARD ACTION

**REVIEW RESULTS OF INTERNAL CONTROL AND COMPLIANCE
AUDIT OF BANKING CONTROLS**

The results of the Internal Control and Compliance audit of Banking Controls will be released at the April 16, 2013 Audit Committee meeting. Copies of the final report will be available at the meeting. Additional copies of the final report may be obtained from the Office of Internal Auditing web site: www.internalauditing.mnscu.edu starting on April 17, 2013.

Date Presented to the Board of Trustee: April 17, 2013