

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING MINUTES
June 19, 2013**

Audit Committee Members Present: Trustees Philip Krinkie, Chair; Ann Anaya, Brett Anderson, Alfredo Oliveira (by telephone), and Michael Vekich.

Audit Committee Members Absent: none.

Others Present: Chancellor Steven Rosenstone, Trustees Clarence Hightower, Chair; Duane Benson, Alexander Cirillo, Jr., Cheryl Dickson, Dawn Erlandson, Maria Peluso, President Richard Hanson (Bemidji State University), President Pat Johns (Lake Superior College) and President Edna Szymanski (Minnesota State University Moorhead).

The Minnesota State Colleges and Universities Audit Committee held its meeting on June 19, 2013, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Chair Krinkie called the meeting to order at 8:01 a.m. and reviewed the agenda.

Trustee Krinkie asked if we had members on the phone, Trustee Alfredo Oliveria acknowledged that he was participating on the phone.

1. Approval of the Audit Committee Meeting Minutes

Trustee Krinkie called for a motion to approve the April 16, 2013 Audit Committee meeting minutes. There was no dissent and the motion carried.

2. Review Results of Bemidji State University & Northwest Technical College Internal Control and Compliance Audit

Ms. Beth Buse, Executive Director of Internal Auditing, introduced President Richard Hanson, Bemidji State University, and Mr. Eric Wion, Deputy Director of the Office of Internal Auditing.

Mr. Wion presented the results of the internal control and compliance audit of Bemidji State University and Northwest Technical College. He stated that the results were extremely positive.

He stated generally the college and university had adequate controls, and for the items tested, the university and college generally complied with MnSCU policies and finance-related legal provisions. He added that there were six audit findings in the report that could be categorized as isolated issues that were opportunities for continuous improvement. Mr. Wion briefly reviewed the six findings.

Trustee Oliveira asked for clarification of finding four related to the reasonableness of clothing purchases for admissions office recruiters. Mr. Wion stated that the recommendation to the

university was to consider developing written guidance related to clothing purchased for staff, so that there would be clear understanding about what was appropriate. President Hanson introduced Mr. Bill Maki, Vice President for Finance & Administration. President Hanson stated that he would be interested to see an example of another university clothing policy. He added that they could give staff reminders about appropriate clothing expenditures.

President Hanson also stated that they were pleased with the results of the audit and added that the professionalism of the audit staff had been extraordinary. He stated that the university had already started to implement some of the necessary things to address the findings. He further stated that it had been a very good process.

Trustee Benson asked President Hanson about the NCAA's regulatory function in terms of student athlete recruitment. President Hanson stated that Bemidji State University had both Division I and II athletics, and that the NCAA has extensive expectations about recruiting at both division levels. He added that the audit findings related to student athletics were local management issues.

Trustee Krinkie thanked President Hanson and stated that there appeared to have been good cooperation and a good audit outcome.

3. Review Results of Audit Risk Assessment

Ms. Buse asked President Edna Szymanski, Minnesota State University Moorhead and President Pat Johns, Lake Superior College to join her at presenters table.

Ms. Buse stated that internal audit standards and board policy required that an audit plan be developed based on a documented risk assessment and be brought to the audit committee annually for approval. She stated that she would first present the risk assessment and then the next agenda item would be to discuss the annual audit plan for 2014.

Ms. Buse stated that the risk assessment must consider input of senior management and the Board of Trustees and take into account the organizations risk management framework. She outlined the methodology used, and stated that the risk assessment was aligned with the enterprise risk management study session from the prior month. Both strategic and operational risks were considered, and methodologies were developed to look specifically at financial risks and technology risks.

Ms. Buse reminded the committee that leaders across the system have to balance limited resources against risks. Ms. Buse outlined themes that were developed from conversations with system leaders. She stated that facility safety and security was on the minds of everyone. She also noted that regulatory compliance was an expanding and growing area in both the higher education arena as well as in the private sector, and may be an area for future audits.

Ms. Buse further stated that system leaders were concerned about the information technology security posture of colleges and universities as well as concerns with keeping the Integrated Statewide Record System up to current technology. She added that although there had been

work done in the past related to DARS implementation, the issue still came up as an area of concern. She noted that she would want to ask more questions to identify specific concerns.

Ms. Buse noted that the issue of system branding had been discussed during the Board's May study session, and it was also of interest by system leadership.

Ms. Buse stated that the three words that she uses to describe the Campus Service Cooperative are anxiety, questions and hope. There's still some anxiety and questions because of the newness of it, but there's also hope around the work that can be done through the Campus Service Cooperative.

Ms. Buse talked about financial risks. She explained that in fiscal year 2011 the audit committee had tasked itself with evaluating how to do audits in the organization and how to get internal control and compliance audit coverage once the relationship with the Office of the Legislative Auditor ended. It was concluded that, given limited resources, we would do limited audits of colleges and universities like the one that was just conducted at Bemidji State University and Northwest Technical College. More resources would be focused on functional audits. The Banking Controls audit that was presented in April is an example of a functional audit.

Ms. Buse reviewed the metrics used for determining financial risk to help determine where it would be best to spend resources. She reviewed the range of scores from 2012-2013 and noted that they had stayed pretty similar over the past year. She also noted that none of the colleges and universities were close to getting all the available points that could be afforded. Vice Chancellor King echoed that point, observing that even the highest risk conclusions came in at less than half the possible points, which she added, gave her great comfort.

Trustee Krinkie asked if a detailed list of the risk assessments could be made available to any trustee who requested them. Ms. Buse said she would be happy to share the detailed results and walk through them in more detail.

Ms. Buse summarized the report by saying that there had been just a slight increase in financial risk compared to last year. She stated that twenty-two institutions had decreased CFI for FY12, and twelve colleges and universities had net losses for FY 12 compared to FY 11 when there were only four. The financial risk went down at Bemidji State University and Northwest Technical College because of the financial internal control and compliance audit that was recently completed.

Trustee Cirillo asked if any of the identified risk areas were material to the system. Ms. Buse explained that institutions with more financial activity were given more points because they do have a larger impact to the system.

Ms. Buse reviewed the functional areas that helped identify potential horizontal audits for the upcoming year. She explained that a category was added to identify areas within the financial arena that have regulatory risk.

Mr. Wion reviewed work related to the Information Technology audit risk assessment.

Mr. Wion explained the three categories of risk related to technology and technology controls, confidentiality, integrity and availability. Confidentiality is the need to protect private or not public data. Integrity is the completeness and accuracy of data. Availability is the need for systems to be available to provide ongoing services to students and employees

Mr. Wion explained some of the many aspects to information technology control, from governance and management controls, software and applications, to computers, servers, networks and data centers.

Trustee Anaya asked if the compliance would be a part of the risk assessment plan. Mr. Wion stated that a part of any information technology audit, would consider various management controls and compliance issues to look at things such as policies and guidelines.

Mr. Wion continued by discussing the Minnesota State Colleges and Universities computing environment. However, he noted that the system office manages the wide area network and also many mission critical enterprise applications including the Learning Management System that the colleges and universities use for online learning. The system also manages a data warehouse, which is a tool for colleges and universities and the system office to do data analysis reporting and analysis. Mr. Wion noted that there were a few other systems as well that would be characterized as enterprise management, managed by the system office. Mr. Wion stated that each individual college and university manage their own data centers, their own local area networks, and any institution specific applications.

Mr. Wion reviewed the scale he created to think about confidentiality, integrity and availability using high, medium and low scoring. He noted that for a system that collects, processes and stores large volumes of private data, confidentiality would be high. Similarly a system such as the learning management system, which needs to be available continuously for students to do their work, would have a high availability score. Enterprise systems, which have large amounts of student and employee data, which is used for important business processes across the system, has a high availability score. Mr. Wion stated that systems managed by the system office were some of the most important systems for the enterprise.

Trustee Anaya asked if the risk assessment considered safeguards or risks associated with handling confidential information or personal identifiers by employees of the institutions or system office. Mr. Wion stated that would be a component of the risk assessment. Trustee Anaya asked if there would be an assessment of whether there was appropriate education and training with how to handle that information. Mr. Wion stated that user awareness or training was not specifically addressed as part of the risk assessment, he added however, that an audit component could review practices that are in place for employees, to make them aware of what their responsibilities are to protect data.

4. Approve Annual Audit Plan for Fiscal Year 2014

Ms. Buse highlighted key points in the annual audit plan for fiscal year 2014. 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 Benson asked for more information about the construction project pilot. Ms. Buse stated that there had not been a construction auditing program in the past. Based on information from other systems that do have those type of programs, the audit committee approved a construction project pilot program as part of the fiscal 2013 audit plan. She stated that we contracted with an audit firm, and worked with Vice Chancellor King and the facilities division to determine two projects to include in the scope of the audit. We plan to evaluate the results of that audit work to determine what type of audit work we would want to have ongoing, if any, in the future.

In regards to internal audit resources, Ms. Buse stated that the office was currently at full staff compliment. She noted that there was one Information Technology audit manager position, but there was also some one time consulting dollars available for Information Technology audits which was carried over from the prior year.

Ms. Buse added that she would work with Interim Vice Chancellor Chris McCoy to identify topics. She further added that one potential topic might be to take a look at college and university data centers across the organization to clarify the system status in that particular area.

Ms. Buse stated that there had been some delays in the fiscal 2013 audit plan work due to staffing turnover, and that carryover work would have some impact the resources for fiscal 2014. However, she added that all projects were currently underway and the results of that audit work would come to the committee in fiscal 2014.

Ms. Buse stated that there had been an increased demand for investigative services which added to the complexity in determining resources for audit projects.

Ms. Buse stated that her office was conducting a financial audit analysis and she planned to bring the results of that analysis, along with a recommendation, to the committee in January 2014, prior to going out for a request for proposals for fiscal year 2014 financial statement audit services.

Ms. Buse stated that, with the committee and Board of Trustees approval, her office would plan to complete an internal control and compliance audits of the Minnesota State University Moorhead.

President Edna Szymanski, stated that Minnesota State University Moorhead had not had an audit in many years. She added that she was particularly pleased with the timing of the audit because of her upcoming retirement. She stated that the internal control and compliance audit was a wonderful opportunity. Trustee Krinkie noted that it was great to have presidents that actually looked forward to the audit team coming to conduct their work. He stated that it highlighted the good working relationship between the Office of Internal Auditing and the institutions.

Ms. Buse stated that the functional area included in the audit plan would be to review grant management to ensure that there are appropriate internal controls in place across the organization.

Ms. Buse stated that she was proposing an Information Technology audit of the learning management system, Desire2Learn and then college and university controls over computer systems used to access ERP data.

Trustee Anderson asked about the scope of the D2L audit. Ms. Buse stated that they were still working to determine the scope based on the available resources.

Ms. Buse stated that they continued to work closely with Associate Vice Chancellor and Managing Director, Colin Dougherty with regards to the work of the Campus Service Cooperative.

Ms. Buse stated that information gathering projects had been added to gain a better understanding of certain areas prior to conducting audits. She noted that the campus card programs that the state universities have in place, and understanding HIPPA from a compliance perspective were examples of the kinds of areas where more information could be gathered and brought back to the committee.

Ms. Buse stated that it had been ten years since Board Policy 1C.2 Fraudulent or Other Dishonest Acts was adopted, and the policy had not been reviewed since then. She stated that she would work in close consultation with General Counsel and Human Resources to review the policy.

Trustee Krinkie thanked Ms. Buse for her presentation and asked President Pat Johns and President Szymanski for their comments regarding the 2014 audit plan.

President Szymanski stated that it was a very ambitious agenda, but she added that as a president, she was very pleased that the system had a strong internal audit division. President Johns agreed that it was an aggressive agenda, particularly for the staffing level that exists in the office. He also added that he thought that the policies and procedures developed over the years in the finance area under the guidance of Vice Chancellor King, as well as the Office of Internal Auditing, were responsible for the positive audit results over the years. He applauded both areas and stated that he looked forward to the 2014 plan.

Trustee Krinkie agreed and thanked Vice Chancellor King and the staff at the campus level for their good work. Ms. King stated that her office and Executive Director Buse's office had worked together closely for years, and she thought they had systematically built stability and integrity into the environment. She further noted that every year when the system undertakes new plans, it's with an eye toward what should we be thinking about next. She noted that she was very comfortable with this work and thought it added to the environment and was a good teaching tool for the campuses.

Trustee Krinkie called for a motion to approve the Annual Audit Plan for Fiscal Year 2014. *Trustee Vekich made the motion, Trustee Anderson seconded. There was no dissent and the motion carried.*

COMMITTEE ACTION:

On June 19, 2013, the Audit Committee reviewed the Fiscal Year 2014 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 2014.

The meeting adjourned at 9:30 a.m.