



**AUDIT COMMITTEE
OCTOBER 23, 2013
12:00 NOON**

**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 June 19, 2013 (pages 1-7)**
- (2) Proposed Amendment to Board Policy 1A.2, First Reading (pages 8-10)
- (3) Review Annual Internal Auditing Report for fiscal year 2013 (pages 11-23)
- (4) Role and Responsibilities of the Audit Committee Members (pages 24-27)

Members

Ann Anaya, Chair
Philip Krinkie, Vice Chair
David Paskach
Elise Ristau
Michael Vekich

Bolded items indicate action required.

**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.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
Agenda Item Summary Sheet**

Audit Committee

Date: October 23, 2013

Title: Proposed Amendment to Board Policy 1A.2, First Reading

Purpose (check one):

- | | | |
|--|---|---|
| <input checked="" type="checkbox"/> Proposed
New Policy or
Amendment to
Existing Policy | <input type="checkbox"/> Approvals
Required by
Policy | <input type="checkbox"/> Other
Approvals |
| <input type="checkbox"/> Monitoring /
Compliance | <input type="checkbox"/> Information | |

Brief Description:

The proposed amendment removes the restriction that independent audit firms may not be appointed to a particular engagement for more than six consecutive years

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing
Laura King, Vice Chancellor - Chief Financial Officer

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

INFORMATION ITEM
PROPOSED AMENDMENT TO BOARD POLICY 1A.2 FIRST READING

BACKGROUND

Much debate has occurred over required rotation of external auditors. While the Public Company Accounting Oversight Board (PCAOB) believes strongly in a mandatory rotation, both the American Institute of Certified Public Accountants (AICPA) and the Institute of Internal Auditors are opposed to one based solely on passage of time. In fact, the AICPA believes that mandatory rotation would actually hurt government and not-for-profit organizations.

Controls currently in place to protect the system against risks associated with using the same audit firm on consecutive engagements include:

- At a minimum, board policy requires that we solicit bids for external audit services once every five years.
- Representatives from both internal audit and the finance division prepare the requirements for soliciting external audit bids and are involved in the evaluation of proposals received.
- Audit Committee recommends the selection of external audit firm(s) to the full Board of Trustees for approval.

RECOMMENDED COMMITTEE MOTION

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

The Board of Trustees approves the amendment to Board Policy 1A.2 Board of Trustees.

RECOMMENDED BOARD MOTION

The Board of Trustees approves the amendment to Board Policy 1A.2 Board of Trustees.

Date Presented to the Board of Trustee: October 23, 2013

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

BOARD POLICY – PROPOSED AMENDMENT	1A.2
Chapter 1. System Organization and Administration	
Policy 1A.2 Board of Trustees	

1A.2 Board of Trustees

Part 5. Standing Committees, Committees, and Working Groups of the Board.

Subpart E. Audit Committee. The audit committee of the board consists of no fewer than three and no more than seven members to be appointed by the chair of the board annually. The committee shall meet at the call of its chair. The audit committee is charged with oversight of internal and external audits of all system functions including individual campus audits. The board shall hire an executive director of internal auditing and other auditors who shall report directly to the committee and the board. Committee members shall receive training annually on their auditing and oversight responsibilities.

The audit committee is responsible for overseeing the service of internal and independent auditors. Policy 1D governs the Office Internal Auditing. The committee has the following responsibilities for independent auditors:

1. Oversee the process for selecting independent auditors. The committee shall select one or more independent auditors to audit system-level or institutional financial statements and recommend their appointment to the board. ~~An independent audit firm may not be appointed to a particular engagement for more than six consecutive years.~~
2. Review any non-audit services proposed by independent auditors under contract for audit services. The board must approve in advance any non-audit services to be provided by independent auditors under contract for audit services unless the scope of non-audit services is completely distinct from the scope of the audit engagement.
3. Review and discuss the results of each audit engagement with the independent auditor and management prior to recommending that the board release the audited financial statements.

Date of Adoption: 03/21/95,

Date of Implementation: 03/21/95,

Date and Subject of Revision:

xx/xx/13 - Amended Part 5, Subpart E1 to remove the restriction that independent audit firms may not be appointed to a particular engagement for more than six consecutive years.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
Agenda Item Summary Sheet**

Audit Committee

Date: October 23, 2013

Title: Review Annual Internal Auditing Report for fiscal year 2013

Purpose (check one):

- | | | |
|---|---|---|
| <input type="checkbox"/> Proposed
New Policy or
Amendment to
Existing Policy | <input type="checkbox"/> Approvals
Required by
Policy | <input type="checkbox"/> Other
Approvals |
| <input checked="" type="checkbox"/> Monitoring /
Compliance | <input type="checkbox"/> Information | |

Brief Description:

Board policy requires an annual report from the Office of Internal Auditing that summarizes the results of audits conducted during the previous fiscal year.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing

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

INFORMATION ITEM

REVIEW ANNUAL INTERNAL AUDITING REPORT FOR FISCAL YEAR 2013

The annual report for fiscal year 2013 is attached.

Date Presented to the Board of Trustees: October 23, 2013

Internal Auditing Annual Report

Fiscal Year 2013

Office of Internal Auditing

October 10, 2013



Minnesota
STATE COLLEGES
& UNIVERSITIES

Reference Number 2013-10-009

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Minnesota
STATE COLLEGES
& UNIVERSITIES

Internal Auditing Annual Report Fiscal Year 2013

Office of Internal Auditing
Reference Number 2013-10-009

October 10, 2013

October 10, 2013

Members of the Board of Trustees

I am pleased to submit the annual report on the Office of Internal Auditing for fiscal year 2013 as required by Board Policy 1D.1 part 8.

This report summarizes the activities accomplished and facilitated by Internal Auditing over the past year. I am proud of the talented and dedicated professional staff who take great pride in their work. The office conducts audits in conformance with International Standards for the Professional Practice of Internal Auditing.

I wish to reiterate my commitment to managing an office that provides you with credible, professional services. Organizationally, the Office of Internal Auditing is structured to ensure its independence by reporting directly to the Audit Committee. Personally, I take great care to avoid assignments or relationships that would compromise my independence. Accordingly, I pledge to you that I continue to remain independent and objective in my role as Executive Director of the office.

Thank you for your confidence and support in our work.

Beth Buse, CPA, CIA, CISA
Executive Director

CONTENTS

2	Assurance Services
5	Fraud Inquiry & Investigation Support
6	Advisory Services
7	Planning
7	Quality Assurance Review
8	Analysis of Staff Hours

Summary

The audit plan approved by the Board of Trustees in June 2012 provided the foundation for the internal auditing activities carried out in fiscal year 2013. Some noteworthy activities included:

- **Financial Internal Control and Compliance Audits:**
 - Banking Controls
 - Bemidji State University & Northwest Technical College
- **Information Technology Audits:**
 - Vulnerability Management
 - Enterprise Database Management System
- **External Audits:**
 - Financial Statements - CliftonLarsonAllen, the principal auditor for the system, and two other audit firms gave unqualified (clean) financial statement audit opinions for the system and 13 colleges and universities for fiscal year 2012.
 - Student Financial Aid – the system contracts with CliftonLarsonAllen to complete required audit work on federal financial aid. The Minnesota Office of Higher Education completes compliance audits of state aid programs.
- **Follow-up:** colleges and universities continued to make progress in resolving outstanding audit findings.
- **Inquiries and Investigation:** Internal Auditing continues to spend a significant amount of time in conducting fraud inquiries and investigations. Fortunately, there were no significant losses.

I. Assurance Services

Internal Auditing spent the majority of its time working on assurance services which, depending on the scope of the audit, may focus on the quality and reliability of information, legal compliance, and operational efficiency and effectiveness. The following assurance service projects were conducted during fiscal year 2013.

Financial Internal Control and Compliance Audits

Fiscal year 2013 was the second year in implementing a different approach¹ for obtaining financial internal control and compliance audit coverage within the system. The approach contains a combination of limited stand-alone institution audits with a bigger focus on functional area audits. The following audits were completed and discussed with the Audit Committee:

- **Banking Controls:** In April 2013, Internal Auditing released an internal control and compliance audit on banking controls.

MnSCU has over 130 local bank and investment accounts that over \$1 billion in receipts flow through annually. Each college, university, and the system office is responsible for internal controls related to local banking and investment activity.

Our audit concluded that MnSCU generally had adequate internal controls over banking activities and, for item tested, generally complied with finance related legal requirements. We did, however, identify some internal control deficiencies and noncompliance, most notably; institutions lacked guidance to help them determine the appropriate banking controls needed to adequately address evolving risks, particularly as technology continues to change. We also identified two areas for consideration by system leaders.

Considerations for System Leaders

- Evaluate overall system banking strategy to determine whether opportunities exist to save money on banking services, standardize banking practices and improve controls, as well as maximize earnings.
- Evaluate whether opportunities exist to develop more standardized practices to facilitate the timely reconciliation of local bank accounts and also consider whether there is an opportunity to provide bank reconciliations as a shared service through the Campus Services Cooperative.

- **Bemidji State University & Northwest Technical College:** In June 2013, Internal Auditing released an internal control and compliance audit of Bemidji State University and Northwest Technical College. .

The audit scope included fiscal years 2011, 2012, and 2013 through December 31, 2012. Our audit concluded that the university and college generally had adequate internal controls and for items tested, generally complied with MnSCU policies and finance-related legal provisions. However, the report did contain six internal control and compliance findings.

¹ The system no longer contracts with the Office of the Legislative Auditor to complete cyclical internal control and compliance audits on the non-financial statement audited colleges. As resources permit the Office of the Legislative Auditor plans to have an audit presence within the system. The OLA did not issue any reports related to MnSCU in fiscal year 2013.

Information Technology Audits

Internal Auditing conducted the two planned audits of Information Technology Vulnerability Management and Enterprise Database Management System. These audits focused primarily on internal controls that help to protect the confidentiality, integrity, and availability of applicable computer systems and data. The results of the audits are being used to enhance the overall information technology and security program of the MnSCU.

External Audits

Board policy requires internal auditing to coordinate all audit-related activities within MnSCU. The following audits were conducted by external auditors.

- **Systemwide, Revenue Fund, and College and University Financial Statements:** Audits of fiscal year 2012 financial statements marked the twelfth year that the MnSCU contracted for an external audit of its financial statements. The external audit firm of CliftonLarsonAllen provided an unqualified (clean) opinion on the system-wide financial statements in December 2012.

At the system-wide level, CliftonLarsonAllen also did not cite any “material weaknesses” or “significant deficiencies.” in internal controls. The auditing literature considers a “material weakness” to be the most serious type of problem associated with an internal control structure, so the absence of “material weaknesses” is a positive indicator. Less serious, but noteworthy internal control considerations are referred to as “significant deficiencies.”

In addition, audited financial statements were developed for 13 of the largest institutions: the seven state universities and six two-year colleges. The financial statements for all 13 institutions received unqualified audit opinions from the CPA firms that the board appointed for the audits. Notably, all 13 institutions had no “material weaknesses” in internal controls noted. However, Rochester Community and Technical College had a “significant deficiency” related to the recording of lease revenue and the capitalization of expenditures related to improvements of the heating and cooling system.

Unfortunately the fiscal year 2012 audit of financial statements saw significant delays in the completion of audit work due to the implementation of a new accounting system at the State of Minnesota. The delays resulted in approximately \$40,000 in increased audit fees to the system.

- **ISEEK²:** MnSCU is the fiscal agent for ISEEK. A joint powers agreement requires an annual financial statement audit. January 2013 was the first time the Audit Committee was asked to review and recommend the release of the ISEEK financial statements. A material weakness was

² ISEEK is one of the most comprehensive resources available to the citizens of Minnesota who want to find information about careers, education, and jobs. ISEEK is sponsored by iSeek Solutions partnership. The iSeek Solutions board is comprised of leaders from state government, University of Minnesota, and MnSCU.

noted in the fiscal year 2012 financial statements due to a \$56,000 error in recording of accounts receivables.

- **Federal Student Financial Aid:** Federal law requires an annual audit of major federal programs. The Office of the Legislative Auditor identifies major federal programs for the State of Minnesota, including MnSCU. It identified student federal financial aid as the only major federal program for MnSCU in fiscal year 2012. CliftonLarsonAllen LLP timely completed the audit work as part of its responsibilities as principal auditor for MnSCU. The audit concluded that MnSCU complied, in all material respects, with the compliance requirements over student financial aid. The report did include three minor compliance findings but contained no questioned costs.

The results of CliftonLarsonAllen’s work were incorporated into the State of Minnesota’s Single Audit report that was released in July 2013, four months past the due date. The delays were a result of the State having difficulty producing timely financial statements following the switch to a new accounting system. It is important to emphasize that MnSCU timely completed fiscal year 2012 financial statements and audits.

Unfortunately, the United States Department of Education did impose sanctions on MnSCU colleges and universities because of the delayed submission of the FY2012 single audit.

- **State Student Financial Aid:** The Minnesota Office of Higher Education conducts regular program reviews of state paid financial aid administered by MnSCU colleges and universities. The results of fiscal year 2013 audits are similar to past year results and contained minor technical findings that are typically the result of manual calculation errors or incomplete information for determining program eligibility.
- **Construction Auditing Pilot:** Internal Auditing contracted with the audit firm of Honkamp Krueger & Co., P.C. in January 2013 to perform contract compliance audits on two capital construction projects. The office received \$50,000 in system office initiative funds to complete a pilot project on construction auditing. We worked with Associate Vice Chancellor Brian Yolitz and his staff to select two construction projects to include in the pilot; Minneapolis Community and Technical College on the workforce program renovation and Hennepin Technical College on the Learning Resources Center & Student Service Center renovation. Honkamp Krueger has completed the majority of their work and plans to have final reports for both projects by the end of calendar year 2013. We will analyze the results of the pilot project and report the results to the Audit Committee in 2014.
- **NCAA Agreed Upon Procedure Reviews:** It was determined in fiscal year 2012 that all six state universities with intercollegiate athletic programs were not in compliance with a requirement that the universities have a financial agreed upon procedures review once every three years. To come into compliance, we contracted with the external audit firm responsible for financial statement audits at each of the six universities to complete the reviews by January 2013. The firms completed the work and reported results to university presidents. Issues were noted at a couple of universities which is in the process of being resolved. In the future, we plan to include this requirement in the RFP for external audit services.

Follow-up on Prior Audit Findings

The Board of Trustees and Chancellor expect timely resolution of audit findings. Internal Auditing maintains a database for tracking audit findings and monitors the status of both internal and external audit findings through resolution. Presidents are provided a mid-year and end-of-year follow-up report. Table 1 summarizes fiscal year 2013 activity:

Colleges and universities continued to make significant progress on resolving outstanding audit findings during fiscal year 2013. The increase in the number of finding additions is attributable to an increase in audit activity. As of June 30, 2013, there were 163 unresolved audit findings, all of which were in satisfactory progress³.

**Table 1: College and University Audit Finding Activity Summary
As of June 30, 2013**

	As of June 30, 2013	Previous Year Balances
Unresolved as of July 1, 2011	52	42
Additions – Fiscal Year 2012	367	154
Resolved – Fiscal Year 2012	(256)	(144)
Unresolved as of June 30, 2012	163	52

Status of Unresolved Findings

Satisfactory Progress	163	50
Unsatisfactory Progress	0	2

II. Fraud Inquiry and Investigation Support

Internal Auditing assists colleges and universities with conducting fraud inquiries and investigations. The results of most fraud inquiries and investigations were reported to affected presidents for action. Board policy requires that only significant violations of board policy or law, be communicated to the Board of Trustees. The Executive Director of Internal Auditing advised the Chair of the Audit Committee about fraud investigations and reported potential fraud incidents to the Legislative Auditor, as required by state law.

Internal Auditing continues to spend more time on fraud incidents compared to prior years. Although there were no material losses to the organization, it is important to note that policy 1.C.2 requires an inquiry to determine whether evidence of fraudulent or other dishonest acts is substantiated and merits a fraud investigation or other remedy. Where warranted, a fraud investigation must be completed. As a result of the increase in the number of reported incidents, a significant amount of college and

³ The Office of Internal Auditing concluded that colleges and universities were on track to resolving the findings timely.

university staff time as well as Internal Auditing staff time was dedicated to completing inquiries and investigations. A summary of the types of incidents commonly reported to Internal Auditing were:

- **Theft of equipment:** includes the theft of laptops, overhead projectors, smart phones, musical instruments, and equipment or inventory from technical college programs.
- **Financial aid fraud:** two year colleges, primarily in the metro area, continue to deal with student financial aid fraud cases. Internal Auditing works closely with the Inspector General of the U.S. Department of Education on these incidents.

The USDOE informed us, in the past year, of two indictments related to student financial aid fraud cases where we had worked closely with the Inspector General in providing documentation to help prepare their case.

- **Bank account incidents:** these types of incidents commonly include fraudulent checks being drawn on an account or attempts to gain unauthorized electronic access to an account. The Banking Controls audit completed during the year provided some recommendations that may help reduce the number of incidents in this area.
- **Employee Time Abuse:** Internal Auditing had a few incidents reported this year where employees claimed hours worked where evidence showed they had not. This is typically handled by supervisors as a personnel matter; however, these cases were more significant and did result in employee terminations.

Internal Auditing assisted with other inquiries and investigations primarily centering on allegations of employee misconduct or misuse of property. Internal Auditing reports internal control issues and recommendations to presidents and other administrators when noted and follows up on identified issues.

III. Advisory Services

The Institute of Internal Auditing allows internal auditors to provide advice and guidance to management through consulting or advisory services. These services can be invaluable to management when transforming an area to help ensure that appropriate risks and controls are built in up front rather than waiting until an assurance service engagement. In providing these services, it is important that management is responsible for decisions or actions that are taken as a result of the advice or guidance provided.

Specific areas that Internal Auditing was engaged in advisory services included:

- **Professional advice** - Internal Auditing makes itself available to answer questions on various topics. Common questions pertained to compliance with board policies, system procedures, and best practices.

- **Task forces and other committees** - Internal Auditing representatives also sit on various system task forces and committees, including: IT Risk Management Committee, IT Guidelines Committee, Finance User Group, and Financial Aid Directors.
- **Campus Services Cooperative** – Internal Auditing was actively engaged in activities that took place during the fiscal year.

IV. Planning

Internal Auditing completed an audit risk assessment that included both strategic and operational risks during fiscal year 2013. While the risk assessment took into account risks across the organization in all functional areas, we specifically focused on financial and information technology risks. The results of the risk assessments were discussed with the Audit Committee in June. In addition, the results were taken into consideration in building the audit plan for fiscal year 2014.

V. Quality Assurance Review

The Office of Internal Auditing underwent an external quality assessment in late February 2013. The Institute of Internal Auditors standards require internal audit organizations to undergo an external quality assessment review at least once every five years. The main objectives of the assessment were to assess conformance with the *Standards*, the Code of Ethics, and the Definition of Internal Auditing; to identify opportunities, offer recommendations for improvement, and provide counsel to the chief audit executive and staff for improving their performance and services; and to assess the effectiveness of OIA in providing assurance and consulting services to the board, senior management, and other key stakeholders.

We contracted with Basil Woller and Associates, LLC to complete the external assessment and his overall assessment was:

Internal Auditing is generally in conformance with the Standards, the Code of Ethics, and the Definition of Internal Auditing. They demonstrated a strong commitment to exceeding the basic requirements of the Standards and are focused on enhancing quality through continuous improvement. Their annual risk assessment process focuses activities in areas of highest risk and impact consistent with the strategies and objectives of MnSCU. Internal Auditing has qualified staff that performs their work in a competent and high quality manner and infrastructure that supports consistent performance of the Internal Auditing activities. They are an integral part of the governance process for MnSCU and are valued by stakeholders including the Audit Committee. They operate in a very dynamic environment and their ability to adapt and be responsive to change, combined with their ability to leverage insight on risks impacting the organization into focused audit plans, is critical to their success and value to the organization.

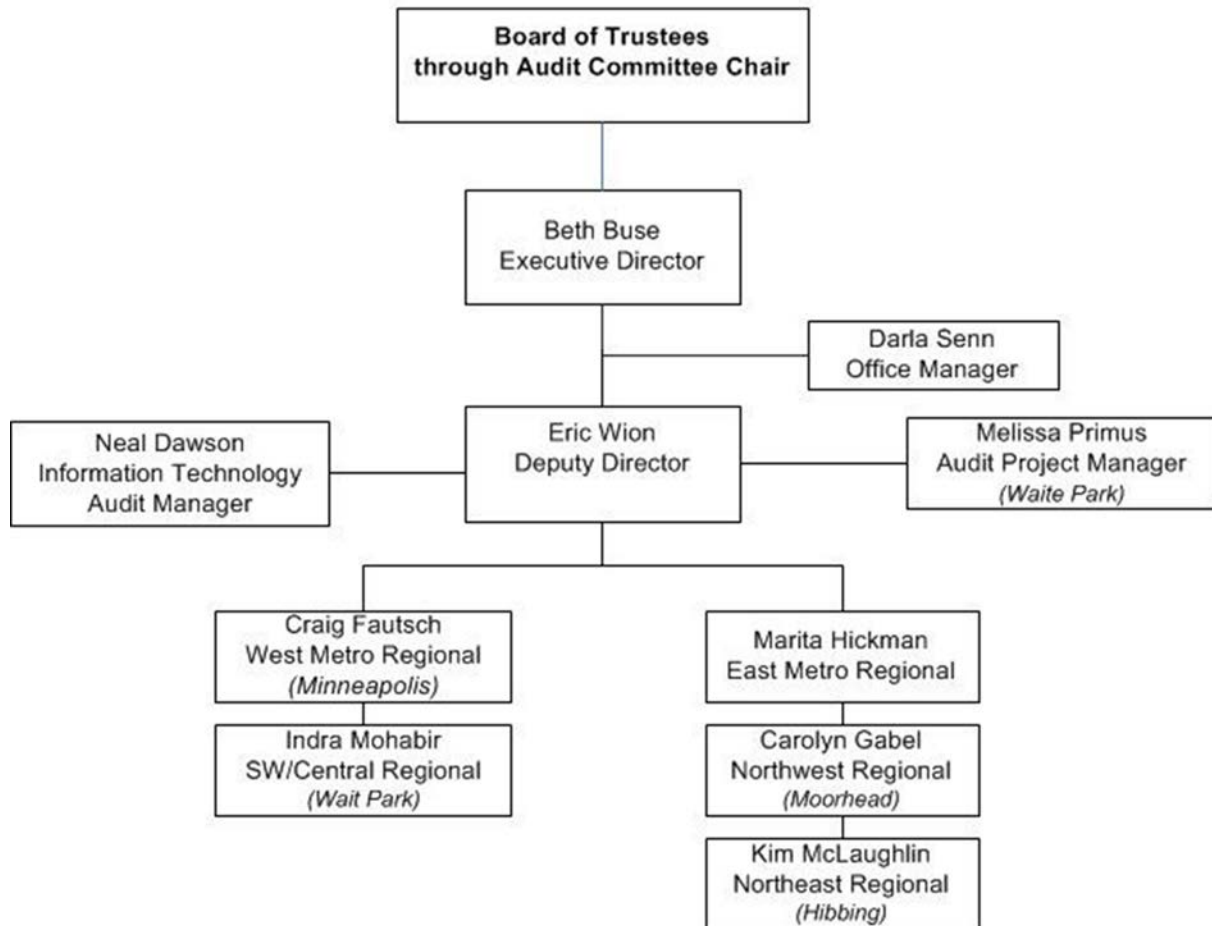
The review did identify some continuous improvement opportunities and a couple of technical changes that need to be made to the audit charter contained in Board Policy 1D.1. We plan to address all of these recommendations during fiscal year 2014.

VI. Analysis of Staff Hours

Figure 1 contains an organization chart for the Office of Internal Auditing. The chart notes employees that are not located in St. Paul. The regional audit coordinators serve multiple colleges or universities located in their regions. In the past year, the office added an audit project manager position to help manage the increasing numbers of audit projects. Table 2 provides a summary of how technical staff resources were used during fiscal years 2010 through 2013.

Figure 1

Minnesota State Colleges and Universities Office of Internal Auditing



**Table 2: Percentage of Internal Auditing Technical Service Staff⁴ Hours
Fiscal Years 2010 - 2013**

Service	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010
Financial Internal Control and Compliance Audits	35%	32%	3%	14%
Information Technology Audits	10%	3%	0	0
Audited Financial Statements	11%	14%	27%	23%
Follow-up on Prior Audit Findings	12%	13%	34%	28%
Fraud Inquiry and Investigation Support	22%	22%	17%	11%
Professional Advice	7%	8%	7%	8%
Planning	2%	6%	6%	0
Other Internal Auditing Assurances	1%	2%	6%	7%
Non-Financial Systemwide Audits	0	0	0	9%

The Future

In June 2013, the Board of Trustees approved an audit plan for fiscal year 2014 that takes into consideration the results of audit risk assessments and available audit resources. Audit plans and other information on Internal Auditing are available at the office website, www.internalauditing.mnscu.edu.

⁴ Excludes executive and deputy director hours.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
Agenda Item Summary Sheet**

Audit Committee

Date: October 23, 2013

Title: Role and Responsibilities of the Audit Committee Members

Purpose (check one):

- | | | |
|---|---|---|
| <input type="checkbox"/> Proposed
New Policy or
Amendment to
Existing Policy | <input type="checkbox"/> Approvals
Required by
Policy | <input type="checkbox"/> Other
Approvals |
| <input checked="" type="checkbox"/> Monitoring /
Compliance | <input type="checkbox"/> Information | |

Brief Description:

Board Policy 1A.2, Part 5, Subpart E stipulates that audit committee members “receive training annually on their auditing and oversight responsibilities.”

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing

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

INFORMATION ITEM

ROLE AND RESPONSIBILITIES OF THE AUDIT COMMITTEE MEMBERS

BACKGROUND

The audit committee is responsible for overseeing the complex, technical work of external and internal auditing. Board Policy 1A.2, Part 5, Subpart E requires annual training for audit committee members to prepare them for carrying out their oversight responsibilities. This training will primarily be conducted by the Executive Director meeting individually with Audit Committee members. However, this session is an opportunity for members to discuss any items that they would like covered individually or as a group in the future.

Specific board policies that relate to the Audit Committee and the Office of Internal Auditing that members should be aware of are:

- 1A.2 Board of Trustees, Part 5, subpart E
- 1A.4 System Administration Appointment of Administrators
- 1C.2 Fraudulent or Other Dishonest Acts
- 1D.1 Office of Internal Auditing

Board policies are located at (<http://www.mnscu.edu/board/policy/>)

In addition, this session is intended to help prepare members for the process of reviewing the audited financial statements. In December 2013, the audit committee will review the audited financial statements for the MnSCU system, its Revenue Fund, and 13 of the largest colleges and universities. The attached checklist is intended to facilitate the review of those financial statements.

Date Presented to the Board of Trustee: October 23, 2013

Financial Statement Audits Checklist

Introduction

One of the most important responsibilities of the audit committee is to serve as “gatekeeper” for the release of financial statements. These financial statements are used by fiscal analysts that evaluate the credit worthiness of the State of Minnesota and the Minnesota State Colleges and Universities. Other users include potential donors, legislators, faculty and student unions, and other interested stakeholders. This checklist is designed to highlight the important aspects of the audited financial statements to be reviewed.

- I. Reports from the external auditor.** These reports consist of the Independent Auditor’s Report (which precedes the financial statements) and the Report on Internal Control over Financial Reporting and on Compliance, and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (which follows the notes to the financial statements).

YES NO

- | | | |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | Does the <u>Independent Auditor’s Report</u> cite any departures from Generally Accepted Accounting Principles? |
| <input type="checkbox"/> | <input type="checkbox"/> | Does the <u>Independent Auditor’s Report</u> cite any limitation on applying Generally Accepted Auditing Standards? |
| <input type="checkbox"/> | <input type="checkbox"/> | Does the <u>Report on Internal Control and Compliance...</u> cite any exceptions noted as material weaknesses or significant deficiencies? |
| <input type="checkbox"/> | <input type="checkbox"/> | Does the <u>Report on Internal Control and Compliance...</u> cite any instances of non-compliance? |
| <input type="checkbox"/> | <input type="checkbox"/> | Has the auditor communicated any disagreements with management or difficulties encountered during the audit? |
| <input type="checkbox"/> | <input type="checkbox"/> | Has the auditor communicated any significant audit adjustments made to the financial statements? |

If there is an affirmative answer to any of these questions, more information must be obtained to evaluate the consequences of the issue.

II. Basic Financial Statements and Trends. The basic financial statements include the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. In addition, a Management Discussion & Analysis (MD&A) section of the financial report is designed to highlight the core business activities of the organization. Based on the basic statements and MD&A, are there noteworthy trends in any of the following [Note: additional guidance will be provided to assist with evaluating these financial trends.]:

YES NO

- | | | |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | Tuition and Fees |
| <input type="checkbox"/> | <input type="checkbox"/> | State Operating and Capital Appropriations |
| <input type="checkbox"/> | <input type="checkbox"/> | Employee Compensation |
| <input type="checkbox"/> | <input type="checkbox"/> | Federal and State Financial Aid Programs |
| <input type="checkbox"/> | <input type="checkbox"/> | Capital Asset Construction and Maintenance |
| <input type="checkbox"/> | <input type="checkbox"/> | Auxiliary Operations, such as bookstores, residence halls, and food services |
| <input type="checkbox"/> | <input type="checkbox"/> | Unrestricted Net Asset Balances (Check the ratios disclosed in the MD&A section for adequacy) |

If there is an affirmative answer to any of these questions, more information must be obtained to evaluate the consequences of the issue.

III. High Risk Transactions. The notes to the financial statements explain the accounting methods used to prepare the financial statements and must highlight any transactions that have a significant impact. The notes are a good source for further information on high risk transactions. Some transactions present greater challenges and, thus, risks to the quality of financial reporting. Are there disclosures on the following issues:

YES NO

- | | | |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | Prior period adjustments |
| <input type="checkbox"/> | <input type="checkbox"/> | Significant joint ventures, alliances, and partnerships |
| <input type="checkbox"/> | <input type="checkbox"/> | Contingent liabilities resulting from litigation |
| <input type="checkbox"/> | <input type="checkbox"/> | Related party transactions |
| <input type="checkbox"/> | <input type="checkbox"/> | Subsequent events |

If there is an affirmative answer to any of these questions, more information must be obtained to evaluate the consequences of the issue.