AUDIT COMMITTEE
APRIL 23, 2014
8:00 A.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 Meeting of January 21, 2013 (pages 1-5)
(2) Internal Audit Update
(3) Select External Audit Firm(s) for Systemwide External Auditing Services (pages 6-9)
(4) Review Results of the Purchasing Card Internal Control and Compliance Audit (pages 10-29)

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
January 21, 2014

Audit Committee Members Present: Trustees Ann Anaya, Chair; Phil Krinkie, David Paskach, and Elise Ristau.

Audit Committee Members Absent: Trustee Michael Vekich.

Others Present: Chancellor Steven Rosenstone, President Edna Szymanski, Trustees Clarence Hightower, Chair; Alexander Cirillo, Duane Benson, Cheryl Dickson, Dawn Erlandson, Maria Peluso, Tom Renier.

The Minnesota State Colleges and Universities Audit Committee held its meeting on January 21, 2014, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Chair Anaya called the meeting to order at 1:04 p.m. and noted that Trustee Krinkie and Trustee Paskach were present by phone.

1. **Minutes of October 23, 2013**
   The minutes of the October 23, 2013 Audit Committee were approved as published.

2. **Minutes of December 3, 2013**
   The minutes of the December 3, 2013 Special Audit Committee were approved as published.

3. **Proposed Amendment to Board Policy 1A.2 (Second Reading)**
   Committee Chair Anaya introduced the second reading of the proposed amendment to Board Policy 1A.2. Ms. Beth Buse, Executive Director of Internal Auditing explained that the proposed changes in the policy language would eliminate the requirement for a mandatory rotation requirement of audit firms. Controls are currently in place to protect the system against risks when using the same audit firm on consecutive engagements. Trustee Krinkie had requested additional information at the first reading. Ms. Buse said that information could be found on page eleven of the Board packet. Chair Anaya asked if the only change was to redact one sentence in Subpart E, 1 (An independent audit firm may not be appointed to a particular engagement for more than six consecutive years.). Ms. Buse said that was correct and referred to page ten of the Board packet where it was stricken.

   Trustee Dickson asked why it was beneficial to eliminate the required rotation versus extending the length of time between rotations. Ms. Buse replied that the Institute of Internal Auditors recommends that if there is a required rotation, it should be every ten years. However, she stated that Board policy requires that the Audit Committee oversee the process for selecting independent auditors and that the committee shall select one or more independent auditors to audit system-level or institutional financial statements and recommend their appointment to the board. She added that she felt that the risks were mitigated by the current process in place and that we did not need a required rotation based solely on the passage of time. Trustee Anaya asked how this plan compares with other higher education systems. Ms. Buse responded that she could not find any other higher education systems that had a required rotation. Trustee Anaya asked if carryover from one year to the next improved efficiency and effectiveness. Ms. Buse stated that by the time a firm begins to understand the complexities of both the Minnesota State Colleges and Universities and the individual institutions as well as working with state government and the foundations, then it's usually time for the required rotation. She added that the system may get more value out of an audit firm by maintaining a relationship longer.

Trustee Anaya called for a motion. Trustee Ristau moved that the Audit Committee recommend adoption of the following motion. Trustee Paskach seconded the motion. The motion prevailed.

RECOMMENDED COMMITTEE ACTION:

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

Based on the review and recommendation of the Audit Committee, the Board of Trustees approves the amendment to Board Policy 1A.2 Board of Trustees.

4. Review and Approve the Financial Audit Plan

Trustee Anaya reminded members that in January 2012, the Board of Trustees requested a study and recommendation for a financial audit plan. Ms. Buse stated that the study included analyzing the continuation of current practices, taking into account objectives, capacity, cost effectiveness and internal control and compliance, risk management strategies and research of practices from other higher education systems.

The recommendations include moving toward a goal to complete an audit of the systemwide financial statements, revenue fund and federal student financial assistance (A-133). There would be a transition period for stand-alone audits of four state universities for FY2014-2016. An enhanced supplement with detail for all 37 colleges and universities would also be provided. The second recommendation would be to increase the number of internal control and compliance audits by three or four, and continue to refine the risk assessment tool used for audit planning.

Ms. Buse presented a comparison of the financial statement audits to internal control and compliance audits, noting they were distinctively different. Ms. Buse also presented a financial risk management summary of the system since the merger which showed the shifts in auditing practices from 1995 to today. In regards to internal control and compliance audits, Ms. Buse reminded the committee that the contract with the Office of the Legislative Auditor to complete these audits of colleges ended in 2010. She stated that the Office of Internal Auditing has been conducting one audit a year.

Ms. Buse stated that there was variability in business practices at every college and university. She noted that the Campus Service Cooperative would help to align those practices, but there was not a timeline or scope in place yet.

The OLA has plans to conduct one internal control and compliance audit every two years, which is less than MnSCU had anticipated.

Trustee Krinkie asked about the cost of Internal Audit staff time related to financial statement audit work. Ms. Buse stated that the cost for audit coordinator support to the external auditors was equivalent to one position per year. She noted that that time would be freed up to work on internal control and compliance audits.

Vice Chancellor King added that MnSCU spends $1.5 million for external audits annually and of that, about $200,000 is built into the program for internal audit staff and about $300,000 for financial reporting staff. This just represents the charge for supporting the financial reporting and financial statement effort. Trustee Krinkie inquired about the cost to each campus. Vice Chancellor King did not have those figures because it had not been surveyed, but she added that it was likely that the internal control and compliance work would touch different campuses differently than the financial reporting work had done.

Ms. Buse reported that she had researched other higher education systems across the country and found that MnSCU's hybrid approach of auditing a portion of the institutions within the system is unique. She added that most systems just had a standalone audit at the system level and did not have any standalone audits of the colleges and universities within the system. Ms. Buse stated that she had consulted the Higher Learning Commission, and they did not think there would be any concerns regarding MnSCU's proposed change in practice.

In surveying campuses, the presidents and the chief financial officers were in favor of completing a systemwide financial statement only and expanding internal control and compliance reviews for colleges and universities, and they generally supported the continued production of supplemental schedules to the annual systemwide financial statements.

President Szymanski stated that internal audit is about identifying risks. She added that she was thrilled that Minnesota State University Moorhead would be undergoing an internal control and compliance audit this year, which was their first in over ten years. President Szymanski explained that the presidents had received a survey of questions to discuss with their Chief Financial Officers about the proposed changes to the audit approach. Ms. Buse added that in addition to the survey, the audit recommendation was presented to and supported by Leadership Council.

Trustee Anaya asked about the different objectives between a financial statement audit and an internal control and compliance audit. Ms. King stated that the committee should take great comfort in the work of the external auditors and their opinion on the material accuracy of the system's financial statements and the college and university financial statements. She added that there was not material comfort provided on internal controls, there was a very high comfort on financial accuracy. She explained that when you switch over to the internal control environment, the assurance is not on the top line financial information, but rather on the transaction level financial information. She added it was important to understand that the two different risk assurances which were both useful.

Trustee Hightower inquired what the Board would receive relative to the internal control and compliance audits. Ms. Buse stated that just as before, the audit reports would go to the Audit Committee for review. She stated that the committee has seen examples in the past year, of both a standalone institution internal control and compliance audit and a functional area internal control and compliance audit. She stated that the board could expect to see more of those types of audits than what they had seen in the past.

Chancellor Rosenstone added 18 years ago, there was difficulty in giving the Board and the public basic financial statement assurance of the system and the colleges and universities, and that is no longer an issue. We have scarce resources. The proposed changes to the audit approach will allow the system to use resources to monitor other areas of risk.

Trustee Erlandson asked if foundations offering grants to the colleges and universities require financial statements. Vice Chancellor King replied that the enhanced supplement would enable MnSCU to show at the institution level what the unaudited schedules were as part of the systemwide audit. She added that historically, there had not been issues with grants given to non-audited schools.

Trustee Krinkie asked about the rationale for the four stand-alone university audits. Vice Chancellor King replied those were included at the request of the university presidents (Bemidji State University, Metropolitan State University, Winona State University and St. Cloud State University).

Trustee Krinkie also asked what impact the proposed changes would have on the overall audit costs. Ms. Buse stated that she anticipated a re-distribution of resources but that there would be more analysis on how to best provide internal control and compliance audits in the future.

Trustee Ristau asked if there would be internal control and compliance audits done at the four state universities who would still be getting standalone financial statement audits. Ms. Buse stated that at this point MnSCU did not have the resources to do annual internal control and compliance audits at each institution, so the institution audits would be selected based on a risk assessment.

Ms. Buse reviewed the recommendations.

Chair Hightower expressed concern that the motion specifically named the four universities that would have the stand-alone audits. He added that the motion was very specific, and his concern was that with changes in leadership coming at some of the institutions, there may be an issue if a new president requested an audit. Ms. Buse stated that if a new president requested an audit, she would be required by Board policy to bring that request back to the committee. Vice Chancellor King referred to the second bullet in the motion and suggested eliminating the named the institutions in order to offer some flexibility. She thought this would still be consistent with

Board policy that authorized the Audit Committee to select auditors and recommends their appointment to the board. An amended motion could go before the full Board upon review by the Office of General Counsel.

Trustee Krinkie stated that moving forward with the changes to the audit approach, it would be essential to have the continued success of the Campus Service Cooperative in key areas like payroll and purchasing cards. The Campus Service Cooperative gives assurance that the system has the complete financial information that a systemwide audit would indicate. Vice Chancellor King agreed that the work of the Campus Service Cooperative lowers costs and human effort which lowers risks.

Chair Anaya thanked Ms. Buse and Vice Chancellor King for the presentation. Trustee Ristau moved that the Audit Committee recommend adoption of the following amended motion. Trustee Paskach seconded the motion. The motion prevailed.

RECOMMENDED AMENDED COMMITTEE ACTION:

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

The Board of Trustees endorses the recommendations offered by the Executive Director of Internal Auditing and Vice Chancellor – CFO regarding a future plan for financial audits. It further authorized the Executive Director of Internal Auditing and Vice Chancellor – CFO to take the following steps:

- Initiate a competitive bidding process to select external auditors for the MnSCU system, revenue fund, federal student financial aid (A-133), and ISEEK for fiscal years 2014 – 2016.
- Initiate a competitive bidding process for required NCAA Agreed Upon Procedures engagements for the six state universities with intercollegiate athletics.

The meeting was adjourned at 2:04 p.m.

Respectfully submitted,
Laury Anderson, Recorder

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

Name: Audit Committee **Date:** April 23, 2014

Title: Select External Audit Firm(s) for Systemwide External Auditing Services

Purpose (check one):

☐ Proposed New Policy or Amendment to Existing Policy	☒ Approvals Required by Policy	☐ Other Approvals
☐ Monitoring / Compliance	☐ Information	

Brief Description:

Board Policy 1.A.2. Part 5, Subpart E charges the Audit Committee with oversight of external auditors. To fulfill that responsibility, the policy requires that the committee select external auditors to recommend for appointment by the full Board of Trustees.

A competitive bidding process began in February to contract with an external auditor to provide system-wide external auditing services for fiscal years 2014 to 2016.

Six firms submitted proposals to a Request for Proposal.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing
Laura King, Vice Chancellor of Finance/CFO

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD INFORMATION

SELECT EXTERNAL AUDIT FIRM(S)
FOR SYSTEMWIDE EXTERNAL AUDITING SERVICES

BACKGROUND

In January 2014, the Board of Trustees approved a motion for the Office of Internal Auditing and the Finance Division to prepare a request for proposal (RFP) to solicit interest from external audit firms. This RFP solicited external audit services for nine financial statements audits for fiscal years 2014, 2015 and 2016, A-133 compliance audits of federal student financial aid for fiscal years 2014, 2015, 2016, and completion of NCAA Agreed Upon Procedures at six universities for fiscal year 2015. Specific work in scope includes:

- Systemwide financial statement audit
- Revenue Fund financial statement audit
- Bemidji State University financial statement audit
- Metropolitan State University financial statement audit
- St. Cloud State University financial statement audit
- Winona State University financial statement audit
- iSeek Solutions financial statement audit
- Itasca Community College Student Housing Funds financial statement audit
- KVSC Radio 88.1 (St. Cloud State University Enterprise Fund) financial statement audit
- Federal Student Financial Aid Cluster (A-133)
- NCAA Agreed Upon Procedures for fiscal year 2015 for Bemidji State University, Minnesota State University, Mankato, Minnesota State University Moorhead, Southwest Minnesota State University, St. Cloud State University, and Winona State University

The Audit Committee, pursuant to Board Policy 1.A.2. Part 5, Subpart E, must select the external auditing firm(s) to recommend to the full Board of Trustees for appointment.

The Executive Director of Internal Auditing and the Vice Chancellor – Chief Financial Officer have led a process to identify external auditing firm(s) to recommend to the Board of Trustees for the above system audits. A request for proposals (RFP) was published in the State Register on February 18, 2014. In addition, the RFP was distributed to 16 interested public accounting firms. The RFP sought external auditing firms interested in providing systemwide external auditing services for fiscal years 2014 to 2016, as described above. In addition, the RFP requested firms to submit pricing parameters if additional college and university audits were requested. The RFP stated that proposals could be submitted for all components, a package of components, or for individual components. The deadline for submitting proposals was March 13, 2014.

Six public accounting firms responded to the RFP and submitted proposals. Four of the firms submitted package pricing on all components, as well as individual components. Two additional firms submitted proposals only on select components contained in the RFP.

The proposals were reviewed by representatives of the Office of Internal Auditing, MnSCU Finance Division, and Academic and Student Affairs Division. This group evaluated the proposals based on the selection criteria cited in the RFP, which included the qualifications of the firm and its personnel, understanding of proposed objectives, the proposed work plan, and cost detail.

The group determined that there was a distinct pricing advantage to select a single external auditing firm to complete all components included in the RFP. Because of this, the group focused its review on the four proposals that contained a package for all components contained in the RFP.

In evaluating these four proposals against the selection criteria, it was determined that one of the four proposals did not meet the requirements set out in the RFP and could no longer be considered. In evaluating the other three proposals, the group determined that an auditing firm’s experience in higher education beyond the MnSCU system would bring greater perspective and valuable information to the audit process.

Based on its evaluation of the selection criteria, the review group recommends that the firm of CliftonLarsonAllen be appointed to serve as systemwide external auditor for the Minnesota State Colleges and Universities for fiscal years 2014 to 2016. CliftonLarsonAllen has extensive experience in serving higher education institutions and higher education systems across the country. In addition, the firm has extensive experience with the MnSCU system, including serving as the external auditor for the systemwide audit for the past four years and several system colleges and universities over the past twelve years. The firm has consistently provided high quality services to the system.

RECOMMENDED COMMITTEE ACTION

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

RECOMMENDED BOARD OF TRUSTEES MOTION

The Board of Trustees approves the appointment of CliftonLarsonAllen to serve as the systemwide external auditor for the Minnesota State Colleges and Universities.

The term of this appointment begins upon the execution of a contract and shall continue to fulfill external auditing needs for the three fiscal years from June 30, 2014 through 2016. The Board of Trustees authorizes the Executive Director of Internal Auditing and the Vice Chancellor/Chief Financial Officer to negotiate a contract with CliftonLarsonAllen consistent with the terms contained in its proposal dated March 6, 2014.

Date Presented to the Board of Trustees: April 23, 2014

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

Name: Audit Committee **Date:** April 23, 2014

Title: Review Results of the Purchasing Card Internal Control and Compliance Audit

Purpose (check one):

☐	Proposed New Policy or Amendment to Existing Policy	☐	Approvals Required by Policy	☐	Other Approvals
X	Monitoring / Compliance	☐	Information		

Brief Description:

We reviewed internal controls and compliance over purchasing cards (Pcards) at the colleges and universities and the system office. Every MnSCU institution has a Pcard program. The numbers of cardholders vary from a few to several hundred. Each institution is responsible for its internal controls related to their local Pcard activity.

It was determined that MnSCU generally had adequate internal controls over Pcard activities. For items tested, MnSCU generally complied with finance-related legal requirements and applicable policies, procedures, and guidelines.

There are seven findings and recommendations to assist colleges, universities, and the system office in improving business processes, controls, and accountability.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD INFORMATION

REVIEW RESULTS OF THE PURCHASING CARD
INTERNAL CONTROL AND COMPLIANCE AUDIT

See attached report.

Date Presented to the Board of Trustees: April 23, 2014

Purchasing Cards:

Internal Control and Compliance Audit

Office of Internal Auditing

April 16, 2014

Minnesota
STATE COLLEGES
& UNIVERSITIES

Reference Number 2014-02

Report Classification: Public

Purchasing Card
Internal Control and Compliance Audit

Minnesota State Colleges & Universities

Office of Internal Auditing
Reference Number 2014-02

Public Release Date – April 16, 2014

Members of the MnSCU Board of Trustees
Chancellor Steven J. Rosenstone
College and University Presidents

This report presents the results of our internal control and compliance audit of purchasing cards. It contains 7 findings and recommendations to assist colleges, universities, and the system office in improving business processes, controls, and accountability.

We conducted this audit in conformance with the *International Standards for Professional Practice of Internal Auditing*.

The results of the audit were discussed with the system office and the finance advisory group on April 1, 2014.

We appreciate the excellent cooperation and assistance that we received from employees at the colleges, universities, and system office.

Beth Buse, CPA, CIA, CISA
Executive Director

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The audit was performed by Carolyn Gabel, Craig Fautsch, Indra Mohabir, Kim McLaughlin, Marita Hickman, and Melissa Primus

Executive Summary

Background

- Every MnSCU institution has a purchasing card (Pcard) program. The numbers of cardholders vary from a few to several hundred.
- Pcards offer both benefits and risks that need to be addressed.
- Each institution is responsible for its internal controls related to their local Pcard activity.
- Institutions spent nearly $78 million and processed about 270,000 transactions on Pcards over two years.

Conclusion

- MnSCU generally had adequate internal controls over Pcard activities.
- For items tested, MnSCU generally complied with finance-related legal requirements and applicable policies, procedures, and guidelines.

Findings

- Many institutions lacked adequate controls related to employee and supervisory reviews of cardholder purchases (Finding 1).
- Many institutions lacked robust training programs for cardholders and their supervisors (Finding 2).
- Some institutions did not adequately restrict access to the bank's online Pcard system (Finding 3).
- Some institutions did not close Pcards timely when they were no longer needed (Finding 4).
- Written guidance does not address some risky actions such as shipping to home address or making purchases from personal accounts (Finding 5).
- Some institution did not comply with MnSCU system procedure requirements related to delegation of authority for Pcards (Finding 6).
- Some institutions did not comply with MnSCU system procedure related to merchant category blocking or purchasing transaction limits (Finding 7).

Opportunities for Improvement

- The new Pcard contract negotiated by the Campus Service Cooperative and the Pcard implementation team provide new opportunities for improvement.

Section I: Background

A purchasing card (Pcard) is a form of charge card, similar to a credit card that allows goods and services to be procured without the traditional purchasing process. The bank managing the Pcard program will bill the payer on a monthly basis for all charges made during the month.

MnSCU's system office, its 37 accredited colleges and universities, and the Northeast Higher Education District's[1] Northeast Service Unit (NESU) each have Pcard programs. These 39 entities will be referred to as "institutions" throughout the audit report. Some have relatively large programs, with hundreds of cardholders including staff and faculty, others have very limited programs with a few cardholders such as purchasing staff or the president's cabinet. Table 1 identifies the number of institutions based on range of cardholder accounts and employee head count.

Table 1
Number of Cardholders at Institutions as of the Summer of 2013

# Cardholders at Institution	FY13 Unduplicated Employee Headcount						Total Institutions
	< 100	100-300	301-500	501-700	701-1,000	> 1,000	
5 or less	1	1	1	1	1	1	**6**
6-15 cards	1	3		2			**6**
16-50 cards		3	4	3	2	1	**13**
51-100 cards		1	1	1	1	1	**5**
101-200 cards			3	1	1		**5**
201-300 cards					1		**1**
301-450 cards							**0**
451 + cards						3	**3**
Total	**2**	**8**	**9**	**8**	**6**	**6**	**39**

Source: Internal Auditing's survey of institutions in the summer of 2013 and ITS Management Reports

Table 2 provides information related to how much each institution spent via their Pcard program over a two-year period. In addition, it provides information related to the number of transactions processed and number of cardholders.

[1] The Northeast Higher Education District is a governance structure for five two-year colleges in Northeast Minnesota. The Northeast Service Unit provides support or shared services to the participating colleges. The five colleges are Hibbing Community College, Itasca Community College, Mesabi Range Community and Technical College, Rainy River Community College, and Vermilion Community College. Each college is accredited separately.

Table 2: Institution's Two-Year Pcard Spend and Number of Transactions Approximately Two Fiscal Years (2012 and 2013)

Institution	Employee Head Count	# Card Holders	% of Employees with Pcards	2-year Pcard Spend	# Pcard Trans-actions
Minnesota State University, Mankato	1,885	621	33%	$26,536,189	70,042
St. Cloud State University	1,905	700	37%	15,943,399	36,677
Minnesota State Community & Technical College	779	275	35%	3,980,984	20,218
Minnesota State University Moorhead	978	200	20%	3,736,957	23,031
Bemidji State University	645	145	22%	3,161,482	14,258
Winona State University	1,183	460	39%	2,961,092	15,988
Northland Community & Technical College	464	200	43%	2,839,581	11,896
Minneapolis Community & Technical College	929	3	0%	2,109,374	2,275
Southwest Minnesota State University	491	120	24%	1,359,214	8,870
South Central College	762	83	11%	1,286,996	6,280
Dakota County Technical College	430	31	7%	1,196,578	4,190
Northwest Technical College, Bemidji	143	38	27%	1,128,296	4,759
Central Lakes College	425	107	25%	927,089	5,583
Hennepin Technical College	1,027	51	5%	889,928	4,271
Rochester Community & Technical College	737	28	4%	827,612	2,837
Ridgewater College	557	10	2%	737,026	2,351
System Office	438	45	10%	729,808	3,310
Riverland Community College	433	92	21%	705,785	6,039
Century College	1,191	28	2%	665,986	3,021
Alexandria Technical & Community College	488	47	10%	533,373	3,657
Saint Paul College	593	52	9%	533,028	3,408
Normandale Community College	788	30	4%	532,656	2,152
Lake Superior College	539	22	4%	514,845	2,114
Anoka Ramsey Community College	652	15	2%	484,521	1,879
St. Cloud Technical & Community College	581	4	1%	374,566	1,205
Fond du Lac Tribal & Community College	271	15	6%	362,380	1,806
Pine Technical College	177	51	29%	331,394	1,874
Inver Hills Community College	606	16	3%	320,852	1,720
North Hennepin Community College	565	22	4%	293,231	1,499
Minnesota West Community & Technical College	475	23	5%	279,903	1,583
Anoka Technical College	276	6	2%	272,795	991
NESU**	24	9	38%	231,416	1,150
Minnesota State College - Southeast Technical	276	27	10%	207,904	1,197
Hibbing Community College	436	5	1%	172,193	643
Metropolitan State University	1,283	5	0%	121,441	476
Mesabi Community & Technical College	206	3	1%	111,612	366
Rainy River Community College^^	65	1	2%	53,503	n/a
Itasca Community College++	212	22	10%	n/a	n/a
Vermilion Community College++	116	6	5%	n/a	n/a
			Totals	**$77,454,989**	**273,616**

Source: Pcard vendors, ITS Data Management Reports, and Internal Auditing's summer 2013 survey of institutions
Notes: **NESU - amount only includes US Bank data; ^^Rainy River Community College - amount is for 1 year; ++Itasca Community College and Vermilion Community College - Pcard vendor was unable to provide electronic data.

Individual institutions selected their own Pcard vendor. However, the majority of the institutions elected to use U.S. Bank and the contract previously negotiated by the system office. Table 3 identifies each Pcard vendor and the number of institutions that use the vendor.

Table 3
Pcard Vendors Used By MnSCU Institutions

Pcard Vendors	# of Institutions
U.S. Bank	33
Wells Fargo	4
Bremer	3
Grand Rapids State Bank	2
Total	42**

Source: Internal Auditing's summer 2013 survey of institutions
Notes: **Mesabi Range Community & Technical College, St. Cloud State University, and NESU each use two Pcard vendors

Pcards offer many benefits for institutions. They streamline the purchasing process by eliminating many steps in a traditional purchasing process. They can be used to make purchases from vendors who no longer accept written purchase orders. Also, most Pcard vendors offer rebates based on a variety of factors such as purchasing amounts and timely payments. For example, the MnSCU institutions that participated in the U.S. Bank program received approximately $150,000 in rebates, almost one percent of their 2012 spend. The two largest institutions used Wells Fargo and Bremer and received a combined total of approximately $175,000 in rebates based on their 2012 spend.

Pcards also introduce risks. Each institution is responsible for designing and implementing its own controls to adequately mitigate risks. Pcard vendors offer tools to help enforce good controls. Examples of key controls include:

- Limiting and periodically reviewing employee access to the Pcard vendor's computer system.
- Processes to approve employees obtaining a Pcard and determining purchasing limits.
- Initial and periodic required training for cardholders and supervisors.
- Establishing transaction, monthly, or other dollar limits on each Pcard.
- Merchant Category Code (MCC) blocking to prevent purchases from particular types of vendors such as liquor stores, casinos, or jewelry stores.
- Supervisor review and approval of each Pcard transaction and supporting documentation.
- Reconciling Pcard activity to source documentation such as receipts.
- Processes to identify and close cards timely when an employee separates employment, changes jobs, or no longer needs a card.

Pcards have been a focus area of the Campus Service Cooperative (CSC). MnSCU's CSC is an initiative that focuses on strategic sourcing and opportunities for shared services. It recently negotiated a new Pcard contract with U.S. Bank. Included in the contract are higher rebates and new automated tools that can improve operational efficiencies while also improving internal controls. The CSC has convened a team with broad representation among institutions to identify best practices and opportunities for shared services as the new Pcard program is implemented. Although participation is voluntary it will be highly recommended. Section IV describes some of the new program's benefits, opportunities, and challenges.

Section II: Audit Objectives, Scope, Methodology, and Conclusion

Objectives

The objectives for this audit were to answer the following questions:

- Did institution's internal controls provide reasonable assurance that Pcard activities were appropriately authorized and for business purposes, properly recorded in the accounting records, and in compliance with applicable policies and procedures?
- For items tested, did institutions comply with applicable MnSCU policies and procedures over Pcards?
- Do opportunities exist for management to improve business processes over Pcard activities to make them more effective and efficient?

Scope and Methodology

Our audit scope included a review of institution's Pcard internal controls. The Pcard programs are managed separately at each of these locations. Each was surveyed to determine what kinds of Pcards were used and the internal controls designed and implemented to mitigate risks.

In addition to surveys, we reviewed relevant documentation including MnSCU system policies, procedures, and guidelines and considered risks of fraud and errors and potential noncompliance with finance-related legal requirements in designing our audit approach. We obtained and analyzed Pcard data to identify unusual transactions or significant changes. We also reviewed select employee access to the Pcard vendor's online computer systems to identify what actions staff could initiate, approve, or process and also whether duties were adequately separated. Finally, we selected a sample of transactions and reviewed supporting documentation to test whether the controls were effective and if the transactions complied with MnSCU system policies, procedures, and guidelines.

Overall Conclusion

Institutions generally had adequate internal controls to provide reasonable assurance that Pcard activities were adequately safeguarded, accurately recorded in the accounting records, and complied with finance-related legal requirements. For items tested, institutions generally complied with MnSCU policies, procedures, and guidelines. We did, however, identify some internal control weaknesses and noncompliance that are discussed in Section III: Audit Findings and Recommendations.

Section III – Audit Findings and Recommendations

1. Many institutions lacked adequate controls related to employee and supervisory reviews of cardholder purchases.

We saw inconsistency in supervisory review of Pcard purchases at the institutions we tested. For example, two institutions relied on the use of purchase orders as review and approval of purchases; however, the cardholder supervisor was not always involved in the purchase order process. At another college, supervisors do not review cardholder purchases; instead, reviews are performed by staff in the business office. The supervisor's review of cardholder purchases and supporting documentation is one of the most important Pcard controls. The business office can determine that a purchase seems reasonable, but only the supervisor is in the position to know if the purchase is allowable, appropriate, and needed. MnSCU System Procedure 7.3.3 Purchasing Cards requires supervisors[2] to review purchases, including itemized receipts and the monthly cardholder statements, to ensure each purchase is allowable, appropriate, and authorized.

We also saw inconsistency among institutions on cardholder reviews of purchases. For example, institutions that used purchase orders for each transaction considered the purchase order to be the cardholder review and approval for the transaction. Other institutions required cardholders to sign a transaction log or statement of transactions to demonstrate the cardholder's review and approval of the transactions. For some items tested, we did not see evidence the statement had been reviewed by the employee. The MnSCU system procedure requires cardholders to review monthly cardholder statements from the Pcard vendor for accuracy and ensure all transactions posted are legitimate transactions made by the cardholder. The cardholder must attach itemized receipts issued by the vendor and any other documentation, and sign the statement to certify good or services have been received.

We also tested transactions to determine if statements were submitted timely to the business office. We noted that some statements were not submitted timely to the business office. Many submissions were not dated by the supervisors; therefore, we were unable to determine if reconciliations were submitted timely. MnSCU system procedure requires submission of cardholder reconciliations to the business office in a timely manner, defined in procedure as five days.

Most supervisors learn of cardholder purchases when the cardholder submits their monthly statement and supporting documentation to the supervisor for review. Supervisors should be notified independently, such as a system-email alert or statements routed directly to them rather than by the cardholder. This ensures the supervisor is aware they have Pcard transactions to review and approval. Without it the cardholder could circumvent the control.

In addition, some institutions did not design their procedures so supervisors send the completed reconciliation package directly to the business offices. Instead, in some cases,

[2] MnSCU Procedure 7.3.3 Purchasing Cards requires a supervisor or authorized reviewer to review cardholder transactions. This role will be referred to as "supervisor" throughout the audit report.

cardholders were given back their reconciliation package to submit to the business office themselves. By returning the reconciliation package to the cardholder, the cardholder could add receipt documentation to the package he did not wish the supervisor to see. A supervisor may feel rushed to review the reconciliation package if a cardholder is waiting for the approval and not realize some purchase documentation is missing; if the cardholder added additional documentation, the reconciliation package will be complete for the business office, but the supervisor would not have viewed all receipts for propriety. To avoid irregularities, supervisors should submit the reconciliation packages to the business offices, rather than cardholders.

Generally, the Pcard review and approval processes are manual and relatively easy to circumvent. An automated process would be better and could ensure supervisors see every Pcard transaction and supporting documentation before approving them. Only four institutions reviewed were using an online computer system provided by the Pcard vendor to help automate the process and ensure internal controls are in place. However, one institution's system did not allow supervisors to see any of the supporting documentation, such as detailed receipts. The supervisor could only view information provided by the system such as purchase amount and vendor name as well as a transaction description entered by the cardholder.

Recommendations

- *Institutions should consider obtaining and requiring more effective oversight tools, such as automated on-line systems, to ensure all Pcard transactions and supporting documentation are submitted, reviewed, and approved by the appropriate staff in a timely manner.*

- *Without automated systems to help enforce good controls, institutions should design manual procedures that ensure:*
  - *cardholder supervisors are notified of cardholder activity directly, rather than by the cardholder,*
  - *cardholders submit supporting documentation to supervisors timely,*
  - *cardholder supervisors review and approve transactions and supporting documentation, and*
  - *cardholder's supervisors submit documentation directly to the business office, rather than sending back to the cardholder.*

- *Institutions should periodically reiterate to supervisors their responsibilities related to reviewing Pcard purchases to ensure items purchased are allowable, authorized, and needed.*

2. Many institutions lacked robust training programs for cardholders and their supervisors.

Many institutions did not provide Pcard training to cardholders or their supervisors before issuing Pcards. Also, many institutions did not require periodic or refresher training.

- 22 of the 57 cardholders tested (at 7 institutions) did not receive Pcard training prior to receiving their cards. 7 additional institutions surveyed indicated that training was limited to sending copies of the Pcard procedures or other documents to employees before they received their cards.

- 4 of the 16 institutions tested offered periodic refresher training to cardholders and cardholder supervisors. 11 additional institutions surveyed indicated they periodically offered refresher training.

A few institutions surveyed indicated they hold college-wide refresher training, such as an employee in-service session. Some institutions require employees to complete a new cardholder agreement annually or when an expired card is replaced – agreeing to abide by the Pcard policies and procedures. One university requires cardholders to annually review a refresher course and pass a quiz in MnSCU's learning management system, Desire2Learn (D2L), to retain their Pcard. D2L allows the university to track and confirm employees complete the training.

A robust training program would include training before and after, perhaps annually, an employee receives a Pcard. Cardholder supervisors should also be required to obtain training. Training provides an opportunity to stress the Pcard rules and cardholder and supervisor responsibilities. It is also an opportunity to discuss the consequences of not complying with those rules. Finally, training provides an opportunity to address questions cardholders or supervisors may have.

Recommendations

- *Institutions should ensure employees receive adequate training prior to receiving a Pcard or supervising an employee given a Pcard. Additional training should occur periodically thereafter.*

- *The system office should consider collaborating with colleges and universities to develop a shared training program.*

3. Some institutions did not adequately restrict access to their bank's online Pcard system.

Some employee that left employment or no longer need access continued to have powerful access to their bank's online Pcard system. The larger Pcard vendors have online computer systems to help organizations manage Pcard programs. Institutions can provide employees with powerful access that allow them to create new login IDs, request new or replacement Pcards, close cards, and change card security features, including merchant category code blocking or transaction limits. We reviewed online Pcard system access and employees given powerful access and identified the following:

- 16 employees at 9 institutions had access without an ongoing business need.

- 20 previous employees at 12 institutions continued to have access after they were no longer employed. One account belonged to an employee who retired nearly six years ago.

Without adequately limiting powerful access, unauthorized changes to cardholder accounts may occur.

Recommendations

- *Institutions should:*
  - *remove powerful access for those who no longer have a business need for such access,*
  - *implement procedures to ensure access is removed timely when an employee leaves employment or no longer needs access, and*
  - *annually review and recertify employee's access to their bank's online Pcard system.*

4. Some institutions did not close Pcards timely when they were no longer needed.

We performed data analysis to determine how frequently individual Pcards were used and identified many that should likely be closed. For example, 55 cards were opened prior to January 2013 and had never been used. 115 additional cards had not been used in more than 360 days. Inactive and unneeded Pcards should be closed to reduce the risk they are used inappropriately.

Recommendations

- *Institutions should:*
  - *close Pcards for those who no longer have a business need to hold a Pcard,*
  - *implement procedures to ensure Pcards are closed timely when an employee leaves employment or no longer needs a card, and*
  - *annually review cardholder activity and recertify cardholders.*

5. Written guidance does not address some risky actions such as shipping to home address or making purchases online using personal accounts.

MnSCU System Procedure 7.3.3 Purchasing Cards and some institutions' own written guidance was silent related to transactions that may be riskier in nature such as shipping items to home addresses or making online purchases using personal accounts. Shipping purchased items to an institution's address provides more control than having them sent to an employee's home address. In addition, using personal online accounts like PayPal or Amazon may create more risk for the institution. Personal accounts often allow individuals to save credit card information which may result in someone accidently making a personal purchase using the institution Pcard. Also, returns made to personal accounts may not be properly credited back to the institution.

Recommendation

- *The system office should consider revising procedure 7.3.3 Purchasing Cards or developing a new guideline to address riskier transactions such as shipping to home addresses and purchasing items online using personal accounts.*

6. Some institutions did not comply with MnSCU system procedure requirements related to delegation of authority for Pcards.

MnSCU System Procedure 7.3.3 Purchasing Cards requires each cardholder be specifically delegated the authority to obligate the institution up to a specified dollar limit on the Pcard; the delegation must be in writing and in accordance with MnSCU System Procedure 1A.2.2 Delegation of Authority.

We tested 57 cardholders at 16 institutions and found 23 cardholders from 10 institutions did not have Delegations of Authority forms completed for the cardholders. When surveyed, an additional 10 institutions indicated they did not complete Delegations of Authority for their cardholders. Finally, for those we tested that completed Delegations of Authority, we noted 4 cardholders' Delegations did not agree with the purchasing limits set on their card as required. One of the cards had a higher limit on Delegation of Authority than purchasing limit set on the card; however, the other three cards' Delegations did not specify an amount for the employee's authorization.

Managing Delegations of Authority is a very manual, paper-based process, and is cumbersome for institutions. Delegations are completed for a variety of reasons such as executing contracts, purchasing responsibilities, personnel and payroll responsibilities, and authorizing certain activities such as travel or special expenses. Forms are completed and routed for signatures from the employee and the President or President's designee. Typically, one Delegation of Authority form is completed for each person; therefore, it is difficult for institutions to quickly know which employees have delegations for specific tasks, such as executing specific contracts, or which employees are authorized for specific dollar thresholds. New Delegations of Authority must be done when an employee's authority changes or leaves employment. In addition, a new Delegation must be completed when there is a change with an institution's President. For the two largest institutions, a change in President would require 600-700 new Delegations for just Pcard users.

Recommendations

- *Institutions should ensure Delegations of Authority forms are completed for each cardholder. In addition, they should ensure the cardholder dollar limits set on the card are the same amount or lower than what is approved on the Delegation of Authority form.*

- *The system office should consider collaborating with colleges and universities to evaluate developing a system to more effectively and efficiently manage Delegations of Authority. A new ISRS module or other automated system could be used to initiate or change delegations, route them for approvals, periodically review and recertify delegation, and provide other reporting capabilities.*

7. Some institutions did not comply with MnSCU system procedure requirements related to merchant category code (MCC) blocking or purchasing transaction limits.

15 institutions did not have MCC blocking set up on 67 Pcards. 1 institution did not have purchasing limits set up on a pilot Pcard program (199 cards) it established to facilitate internal payments to their foodservice vendor. MnSCU System Procedure 7.3.3 Purchasing Cards requires purchasing limits to be placed on Pcards. It also requires MCC blocking. MCC blocking prevents the cards from being used at vendors where items are likely unallowable such as liquor stores, casinos, or jewelry stores, or may be more risky such as antique stores, or pawn shops.

Recommendations

- *Institutions should ensure all cardholders have MCC blocking and purchase transaction limits on their Pcards.*

- *Institutions should periodically review and recertify MCC blocking and purchase transaction limits on Pcards.*

Section IV – Opportunities for Improvement

The new Pcard contract negotiated by the Campus Service Cooperative (CSC) and the Pcard implementation team provide new opportunities for improvement.

A new Pcard program is being developed as part of the CSC Program Portfolio. The project started with assembling a team that included broad participation from campus leaders, staff, private sector companies (through the Itasca Project), and others. The team is developing best practices and a common Pcard procedure. Institutions will be strongly encouraged to adopt the CSC procedure and implement best practices. Also, a new contract was negotiated with U.S. Bank. Although not required, most institutions have indicated they are planning to switch to the new program. The new Pcard program and increased usage of Pcards offers new benefits or opportunities as well as challenges.

Benefits and Opportunities

- Improved Internal Controls and Operational Efficiencies. The new program includes tools to help gain operational efficiencies while also improving internal controls by automating what have traditionally been manual processes and controls that could be more easily circumvented. Each Pcard and associated cardholder will be assigned a supervisor. Notifications and reminders can be sent automatically to supervisors alerting them that purchases have been made that need review and approval. The cardholder can provide a written explanation and business justification for each purchase and also upload receipts or other supporting documentation for the supervisor to review.

- New Monitoring Capabilities. One new tool provides the opportunity to more closely monitor Pcard transactions to identify potentially fraudulent or noncompliant transactions. For example, the tool can be configured to send an automated notice or alert immediately to a supervisor or someone else if an employee's Pcard is used during unusual or non-business hours or if an employee is splitting a purchase into multiple purchases to avoid the transaction limit on the card.

- Reduced Risk to be Liable for Fraudulent Charges. The new contract includes provisions that limit campus liability for fraudulent charges. The coverage is per card and with proper institution action may eliminate the liability entirely.

- Improved Data Quality. A single source of enterprise-wide Pcard data will be available for data analysis and other purposes for institutions that adopt the new program.

- Financial Incentives. It will offer greater financial incentives in the form of increased rebates of almost two percent of total Pcard spend. By identifying and transitioning large non-Pcard spend categories to Pcards, institutions could maximize rebates. Increased spending through Pcards also allows institutions to receive trade discounts and vendor discounts already available within current purchasing contracts but not received due to slower payment methods.

- Automated Cost Allocation to ISRS. One tool will provide the opportunity for all institutions to allocate Pcard-related costs to ISRS via an automated process. Currently some institutions do use such an automated process while others use ISRS purchase orders or enter the allocations manually.

- Shared Services. Shared services become a more viable option when institutions are using common tools and business processes. For example, each institution has at least one employee who performs certain administrative tasks like requesting or closing cards, establishing MCC blocking or other limits. These may be tasks that could be performed as a shared service, reducing risk and increasing compliance and control.

- Training. As new tools, guidance, and business processes are adopted training is a critical component to ensure employees understand them. The CSC and implementation team is developing a single training system that can be shared by all institutions.

- Simplified Procedure Updating and Compliance. As system procedure, training, or compliance requirements change in the future, the use of a standardized training system and a common Pcard procedure document allows each institution to maintain compliance without the need to develop an internal program which may expose the institution to new risks. By maintaining and updating a single document, institutions would be able to implement changes more quickly and effectively.

Challenges

- Requirements and Guidance. Existing requirements and guidance should be reviewed to determine whether changes are needed. For example, they may need to more clearly define what are “original itemized receipts” needed to support purchases. Also, record retention expectations may need to be clarified to determine what must be retained and for how long since receipts or other paper documentation may be converted into electronic images for automated workflow.

- Supervisor’s Roles and Responsibility. While technical controls such as purchase limits and MCC blocking exist and business process workflow can be automated, a supervisor’s thorough review of transactions remains one of the most important internal controls. The supervisor is often the only person who is in a position to verify the business justification of a purchase. As the number of employees with Pcards increase, the supervisor’s task becomes more difficult and time consuming. Institutions need to regularly reiterate the expectations placed on a supervisor and work with those supervisors that have higher numbers of transactions to ensure they can fulfill their responsibilities.

- Encumbrances. MnSCU procedure requires institutions to encumber funds for its Pcard program; however, it does not stipulate how an institution must encumber the funds. Institutions have different practices to encumber funds for Pcards. 15 institutions require a purchase order for each Pcard transaction; 21 institutions encumber funds via a blanket purchase order or encumbrance at either the cost center level or at the institution level. 3

institutions do not encumber funds for their Pcard program. Institutions that encumber via purchase orders for each transaction may have decided this practice allows better control over budgets; however, this practice loses the efficiencies and streamlining Pcards can bring to the traditional purchasing process. Instead of utilizing purchase orders for each transaction, institutions may utilize other tools, such as frequent automated allocation of expenses to ISRS and setting velocity limits on Pcards so a cardholder is limited to a maximum dollar limit for the fiscal year.

- Prompt Vendor Payments. The available rebate under the new contract can be maximized by institutions paying the vendor more promptly than in the past. The CSC will want to review system procedure and work with institutions to determine best practices. Some institutions have found they can maximize their rebates by automatically paying the Pcard vendor the current balance on a weekly or bi-weekly schedule. Other institutions do not automatically pay the Pcard vendor and instead feel it is important to review the statements and documentation first.

- Human Resources. Adequate resources are needed for all aspects of the project including converting institutions to the new program, training employees, and potentially staffing a Pcard team who takes on certain administrative roles.

- Communication. Like all major changes, communication is a critical aspect in ensuring goals and objectives of the program are achieved.

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Minnesota
STATE COLLEGES
& UNIVERSITIES

April 11, 2014

Board of Trustees
Chancellor Steven Rosenstone
Minnesota State Colleges and Universities

The Office of the Internal Auditing has completed an internal control and compliance audit of Pcards (purchasing cards) for the two year period ending June 30, 2013.

It is the auditor's opinion that the colleges and universities and system office "generally had adequate internal controls over Pcard activities and complied with finance related legal requirements and applicable policies, procedures and guidelines." The auditors noted no matters involving Minnesota State Colleges & Universities' internal control over compliance and its operation that would be considered a material weakness. However, in the course of the audit, some instances of internal control deficiencies and opportunities for improved practices were identified.

The college and university financial management community is committed to administration of Pcards in a manner which limits risk and optimizes business process efficiency and economic advantage. The advent of the systemwide contract for administration of a single Pcard program holds great promise for accomplishing these objectives. A high priority effort in the Campus Service Cooperative's program portfolio is the Purchasing Card & Workflow project, which is being led by the CSC executive sponsors, Presidents M. Sue Collins, and Richard Davenport. The CSC is looking forward to providing the Board with an update on the progress of CSC initiatives at its June, 2014 meeting.

The administration will work with campus leaders to respond to the auditor's recommendations in coordination with the launch of the systemwide contract. Attached to this letter please find a detailed response to the findings and recommendations of the audit report.

The auditor's over all conclusion of confidence in the control environment serves as assurance to the Board of Trustees, Chancellor Rosenstone and the public that care and stewardship are exercised by employees across the state.

Regards,

Laura M. King
Vice Chancellor – Chief Financial Officer

Attachment

Attachment

Findings

1. **Many institutions lacked adequate controls related to employee and supervisory reviews of cardholder purchases.**

The audit report offered several recommendations for means and methods of improving the oversight of purchasing card transactions. The system office will work with the campus finance leadership to incorporate additional review and oversight of transactions into the approval process. The Pcard implementation team associated with the new statewide contract will also offer some tools for improving this stage of the process.

2. **Many institutions lacked robust training programs for cardholders and their supervisors.**

The campus services cooperative and system office will work with the campuses to establish and deploy training tools for Pcard use.

3. **Some institutions did not adequately restrict access to their bank's online Pcard system.**

System procedure will be reviewed and modified if necessary in order to make clear the expectation of regular review and proper establishment of Pcard rights for employees.

4. **Some institutions did not close Pcards timely when they were no longer needed.**

System procedure will be reviewed and modified if necessary in order to make clear the expectation of regular review and certification/decertification of Pcard rights for employees.

5. **Written guidance does not address some risky actions such as shipping to home address or making purchases online using personal accounts.**

System procedure will be reviewed and modified if necessary in order to make clear the risk issues and necessitated controls for certain Pcard transactions by employees.

6. **Some institutions did not comply with MnSCU system procedure requirements related to delegation of authority for Pcards.**

The system office recognizes that the delegation of authority process is paper intensive and very difficult to administer efficiently and effectively. The campus finance community will be solicited for suggestions to improve and streamline the process and changes will be made for 2015 forward, where possible.

7. **Some institutions did not comply with MnSCU system procedure requirements related to merchant category code (MCC) blocking or purchasing transaction limits.**

Institutions will be reminded to verify blocking is in place when card authorization is established.