

MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING MINUTES
October 23, 2013

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

Audit Committee Members Absent: Trustees David Paskach and Michael Vekich.

Others Present: Chancellor Steven Rosenstone, Trustees Clarence Hightower, Chair; Duane Benson, Margaret Anderson Kelliher, Alexander Cirillo, Jr., Cheryl Dickson, Dawn Erlandson, and Alfredo Oliveira.

The Minnesota State Colleges and Universities Audit Committee held its meeting on October 23, 2013, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Chair Anaya called the meeting to order at 12:07 p.m. and reviewed the agenda.

1. Approval of the Audit Committee Meeting Minutes

Trustee Anaya called for a motion to approve the June 19, 2013 Audit Committee meeting minutes. There was no dissent and the motion carried.

2. Proposed Amendment to Board Policy 1A.2 Board of Trustees (First Reading)

Ms. Beth Buse, Executive Director of Internal Auditing, began by welcoming Trustee Ristau to the Board of Trustees and to the Audit Committee.

Ms. Buse reviewed the proposed amendment to Board Policy 1A.2 and stated that she planned to bring the proposed amendment back to the committee for a second reading in January.

Ms. Buse explained that the proposed amendment would remove language requiring a rotation of external audit firms. She stated that best practices had changed since the provision was added to the policy, and it is no longer recommended by the American Institute of Certified Public Accountants or the Institute of Internal Auditors to have a required rotation of external auditors based solely on passage of time for government and non-profit entities. Ms. Buse identified specific controls that were in place to balance the risks of not changing external auditors.

Trustee Anaya asked if the proposed change would be a more efficient review process. Ms. Buse stated that she and Vice Chancellor King were conducting a study of financial audits in the system, and they planned to bring recommendations to the committee in January with options for an external audit program as well as an Internal Control and Compliance audit program as it relates to financial activities. She noted that Board Policy requires going out for a Request For Proposals every five years for professional technical contracts over \$100,000, so one recommendation might be to go out for a five year RFP rather than three years.

Chair Hightower asked if there had been changes in the industry that prompted the shift in best practice considerations. Ms. King reminded the committee that there had been Sarbanes Oxley environmental changes that occurred about ten years ago, which were driving by concerns in the commercial industry about auditors becoming too close to the companies they audited, so the standards solution was to require a rotation. She added that as time has passed, more thinking has been done about the relationship control devices put in place at the board level and at the staff level to run an auditing engagement. As a result, the standards have become less absolute on rotating contracts. Ms. Buse concurred and added that there was still much debate for public companies over this topic, so it hasn't settled.

Trustee Krinkie noted that there had also been a tremendous amount of consolidation happening within the industry, so the number of firms that have the expertise to audit a complex organization may be somewhat self-limiting.

Trustee Krinkie also noted that the system has had a rotation of audit firms doing the audits at the campuses. He requested that the committee receive a historical document that shows which external audit team has audited which campuses, so that the committee could see that there had been different external auditing team at different campuses. Beth agreed to provide that document in January.

3. Review Annual Internal Auditing Report for Fiscal Year 2013

Ms. Buse reminded the committee that she reports directly to the audit committee through the audit committee chair. She stated that organizational independence was critical for the Office of Internal Auditing to be successful and that independence was required by internal auditing standards. Ms. Buse offered her assurance to the committee that she was independent, as was the Office of Internal Auditing, and that they would remain independent in the projects that were undertaken.

Ms. Buse explained that the annual Internal Auditing report was required by Board Policy and summarized both internal and external auditing activities for the past year. She reviewed the highlights of the report for the committee.

Ms. Buse stated that more than half of the outstanding audit findings were from the Banking Controls audit. She noted that those findings were in satisfactory progress because there was not enough time for them to be fully resolved from the release of the audit in April to when the annual report was compiled in late June. Trustee Krinkie asked if there had been continuous progress to resolving those findings. Ms. King stated that the Banking Control findings would be remedied mostly through procedural changes and she added that those procedural changes were on the work plan of the leadership who had been running financial statements. She stated that she expected to see steady progress in January.

Trustee Krinkie reported that he and Trustee Anaya had recently met with the external auditors for their required SAS99 discussion. As part of that meeting they discussed the possibility of looking at an easier, more accessible way for people to report anything that they believe might be fraudulent activity. Ms. Buse stated that reviewing Board Policy 1C.2 Fraudulent or Other

Dishonest Acts was in the fiscal year 2014 audit plan. Trustee Anaya noted that there may also be the need to discuss allocation of resources to monitor and respond to the leads generated.

Chancellor Rosenstone asked if any of the findings in the report reached the level of materiality. Ms. Buse explained that audit findings were classified as critical, important, and limited impact. She noted that three findings at one college had been labeled as critical. She also stated that the college believed that they had those findings resolved, and her office needed some time to go by before they could go back and test to ensure that the findings were actually resolved.

Trustee Ristau asked if there were non-financial audits that would be done in the upcoming year. Ms. Buse stated that there were a few areas highlighted in the results of the June audit risk assessment. She said she would get that information to Trustee Ristau.

4. Role and Responsibility of Audit Committee Members

Ms. Buse explained that Board Policy required the audit committee to have annual training in their roles and responsibilities. As part of that training, Ms. Buse stated that she would be scheduling meetings with individual audit committee members over the next couple of months to review related board policies and the audit plan.

Ms. Buse reminded members that there would be a special audit committee meeting on December 3, 2013 at 2:00, to review the financial statement audits. She explained that members would be receiving two binders containing the fifteen audited financial statements. She added that there would be a purple summary sheet for each financial statement, similar to the sample handout members received today, that would highlight the important things for members to look for in each statement.

Ms. Buse pointed out that there was a Financial Statement Audits Checklist in the board packet that would also help Trustees identify the types of things to look for as they reviewed the statements.

Finally Ms. Buse stated that, while each committee member would receive a complete set of all the financial statements, it had worked well in the past for members to divide into two teams to review the statements, so that each member would be responsible for reviewing about half of the statements. Committee members agreed with that approach.

Ms. Buse stated that both she and Ms. King would make themselves available, as they had in the past, to meet with members individually or in pairs, to review the financial statements in detail.

The meeting adjourned at 12:35 p.m.