



**AUDIT COMMITTEE  
JANUARY 21, 2014  
1:00 P.M.**

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

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**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 October 23, 2013 (pages 1-3)**
- (2) Minutes of Special Meeting of December 3, 2013 (pages 4-7)**
- (3) Proposed Amendment to Board Policy 1A.2 Board of Trustees  
(Second Reading) (pages 8-11)**
- (4) Review and Approve the Financial Audit Plan (pages 12-32)**

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  
October 23, 2013**

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**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, 4<sup>th</sup> Floor McCormick Room, 30 East 7<sup>th</sup> 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.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES  
AUDIT COMMITTEE MEETING MINUTES  
December 3, 2013**

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**Audit Committee Members Present:** Trustees Ann Anaya, Chair (by phone); Philip Krinkie, Elise Ristau, David Paskach (by phone), and Michael Vekich.

**Audit Committee Members Absent:** none.

**Others Present:** Chancellor Steven Rosenstone, Trustees Clarence Hightower, Chair; Duane Benson, Dawn Erlandson, Alfredo Oliveira, and Louise Sundin.

The Minnesota State Colleges and Universities Audit Committee held its meeting on December 3, 2013, 4<sup>th</sup> Floor McCormick Room, 30 East 7<sup>th</sup> Street in St. Paul. Vice Chair Krinkie called the meeting to order at 2:00 p.m. and reviewed the agenda.

**1. Review and Approve Release of the 2013 Audited Financial Statements**

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

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

Mr. Koop reviewed the process for the systemwide financial statement audit and discussed materiality thresholds. He stated that there were no internal control issues to report. Mr. Koop pointed out that this was the fourth consecutive year of positive audit results. He stated that it was commendable, and evident that the management of the organization has taken process and control very seriously.

Mr. Koop reviewed the four new Governmental Accounting Standards Board [GASB] standards that took place this year, noting that they had a minimal effect. Mr. Koop reviewed the new GASB 68 that will be applied June 20, 2015, which will require the system to record a liability for its “share” of any unfunded liability for pension plans. Vice Chancellor Laura King, Chief Financial Officer, stated that this new standards would have implication for only about half of the system employees. She noted that Minnesota Management and Budget and the state Pension programs would do the calculations. Ms. King noted that Minnesota has a better than average funded defined benefits program, and she added that while MnSCU represents about a third of all state employees, the system has had a long history with defined contribution programs which will offset this liability. She did caution that the system would see a material number, but added that in the world of pension liabilities, it would not be as

large as other numbers around the country.

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

Trustee Hightower asked where the system was on the Levels of Financial Management pyramid. Mr. Koop stated that from a conservative auditor perspective, he would always like to see more money in reserves, but he added that he believed the organization was clearly in the upper end of financial stability and even into sustainability. Trustee Krinkie reminded audit committee members that they would have a chance to look at the Composite Financial Index in greater detail at the January finance committee meeting.

Finally Mr. Koop stated that the audit process went really well and he added he thought it even improved again this year. He stated that everyone in the management and reporting team were aware of their responsibilities and were always open to improvements even on the smallest items that were reported. He commended the whole group for their communication and professionalism.

Trustee Krinkie expressed his appreciation to the external audit partners. He also congratulated the staff throughout the system and at the system office for their hard work that sustained clean audit report results for a fourth year in a row. Vice Chancellor King echoed his praise. She added her appreciation to the audit committee members for the time and diligence they put into reviewing the financial statements. She thanked Ms. Denise Kirkeby, Mr. Metody Popov, and the whole financial reporting staff. She stated that it was a very small, highly skilled, and very committed to quality staff, and she thanked them for their passionate work on this process. And finally, Ms. King thanked all the staff at the campuses, because the work was really a product of the work of campus staff. Trustee Krinkie asked the financial reporting staff present at the meeting to stand and be recognized by the committee.

Ms. King stated that she planned to summarize the results, and would plan an expanded conversation on the financial condition at the college and university level at the finance committee in January.

Ms. King reviewed the systemwide assets, liabilities and net assets and the systemwide changes in financial position between fiscal years 2012 and 2013. She continued by explaining the systemwide revenues, expenses and net assets, and finally she reviewed components of the net operating revenue. Ms. King stated that revenues and expenses were essentially flat from one year to the next, but she stated that for the most part the colleges and universities had balanced their budgets in fiscal 2013. She added that budget reserves were preserved but they remain thinly funded. Ms. King stated that the detailed materials showed budget stress was starting to emerge at the college and university level, and could be seen in the decline in the Composite Financial Index from last year to 2013. She added that a

number of schools were flagged for an internal watch list program because they were starting to struggle to produce balanced operating budgets. Finally she stated that operating fund reserve changed less than a million dollars in the past year, which represents about two payroll cycles.

Trustee Hightower asked when foundation assets were included as part of the Composite Financial Index and when they were excluded. Ms. King stated that in certain circumstances the foundation assets are included when they were reported to the Higher Learning Commission. But she added that they record the numbers without the foundation assets because that gives a more pure representation of the operating experience.

Trustee Anaya thanked the auditors and Ms. King for the very informative presentation. She stated getting good news was even better knowing that such diligence went into the preparation of the financials.

Mr. Popenhagen stated that a clean audit opinion had been issued on the Revenue Fund financial statements. They were fairly stated in accordance with accounting principles. No significant deficiencies or material weaknesses had been identified in internal controls.

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

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

Mr. Koop noted that there was one significant deficiency at Rochester Community and Technical College. He stated that there were three journal entries that did not get properly recorded. He added that the entries were well below the materiality threshold and had occurred due to staffing turnover. Mr. Koop stated that there was a significant deficiency at Metropolitan State University related to some payroll process issues. The magnitude of that issue at June 30, 2013 was determined to be immaterial, but he added that issues have not come to final determination. Finally, Mr. Koop thanked the staff at the campuses, stating that everybody had been accommodating and helpful. He added that they had seen a very serious stewardship focus at the campuses.

Mr. Koop presented information on the financial statement audit of iSeek. He stated that previous significant deficiencies had been resolved. They issued an unmodified clean opinion on the financial statements. There were no material weaknesses or significant deficiencies.

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

were as follows:

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

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

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

Trustee Krinkie called for a motion to approve the release of the audited financial statements for 2013. *Trustee Vekich made the motion, Trustee Ristau seconded. There was no dissent and the motion carried.*

**RECOMMENDED COMMITTEE ACTION:**

*The Audit Committee has reviewed the fiscal year 2013 audited financial statements and discussed them with representatives of management and the external auditing firms. The committee recommends that the Board of Trustees adopt the following motion:*

**RECOMMENDED MOTION:**

*Based on the review and recommendation of the Audit Committee, the Board of Trustees approves the release of the fiscal year 2013 audited financial statements as submitted.*

The meeting adjourned at 2:54 p.m.



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

**Audit Committee**

**Date:** January 21, 2014

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

**Purpose (check one):**

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

<b>ACTION ITEM</b>
<b>PROPOSED AMENDMENT TO BOARD POLICY 1A.2 SECOND READING</b>

**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.

As background, a summary of contracts with external audit firms by fiscal year is attached.

**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: January 21, 2014*

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

<b>BOARD POLICY – PROPOSED AMENDMENT</b>	<b>1A.2</b>
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/14 - 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.*

## External Auditor Historical Tracking

	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
System	NA	OLA*	Deloitte	Deloitte	Deloitte	KDV	KDV	KDV	KDV	KDV	KDV	CLA	CLA	CLA	CLA
Revenue Fund	CLA	CLA	Deloitte	Deloitte	Deloitte	KDV	KDV	KDV	KDV	KDV	KDV	CLA	CLA	CLA	CLA
Federal Financial Aid Audit	OLA	OLA	Deloitte	Deloitte	Deloitte	KDV	KDV	KDV	KDV	KDV	KDV	CLA	CLA	CLA	CLA
ISEEK Audit	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	CLA	CLA	CLA	CLA
<b>Bemidji State University</b>				KDV	KDV	KDV	KDV	KDV	KDV	BTVK	BTVK	BTVK	BTVK	BTVK	BTVK
<b>MSCTC (NWTC)</b>				KDV	KDV	KDV	KDV	KDV	KDV	BTVK	BTVK	BTVK	BTVK	BTVK	BTVK
<b>Mn. State U, Mankato</b>				CLA	CLA	CLA	CLA	CLA	CLA	KDV	KDV	KDV	KDV	KDV	KDV
<b>Mn. State U Moorhead</b>				KDV	KDV	KDV	CLA	CLA	CLA	KDV	KDV	KDV	KDV	KDV	KDV
<b>St. Cloud State University</b>				CLA	CLA	CLA	BTVK	BTVK	BTVK	BTVK	BTVK	BTVK	KDV	KDV	KDV
<b>Winona State University</b>				CLA	CLA	CLA	CLA	CLA	CLA	KDV	KDV	KDV	KDV	KDV	KDV
<b>Century College</b>				CLA	CLA	CLA	CLA	CLA	CLA	BTVK	BTVK	BTVK	BTVK	BTVK	BTVK
<b>Hennepin Technical College</b>				BTVK	BTVK	BTVK	BTVK	BTVK	BTVK	KDV	KDV	KDV	KDV	KDV	KDV
<b>Metropolitan State U</b>				BTVK	BTVK	BTVK	BTVK	BTVK	BTVK	CLA	CLA	CLA	CLA	CLA	CLA
<b>Mpls. C&amp;TC</b>				BTVK	BTVK	BTVK	BTVK	BTVK	BTVK	CLA	CLA	CLA	CLA	CLA	CLA
<b>Normandale CC</b>				NA	NA	NA	NA	NA	NA	NA	NA	KDV	KDV	KDV	KDV
<b>Rochester C&amp;TC</b>				KDV	KDV	KDV	KDV	KDV	KDV	CLA	CLA	CLA	CLA	CLA	CLA
<b>Southwest Mn State U</b>				KDV	KDV	KDV	KDV	KDV	KDV	CLA	CLA	CLA	CLA	CLA	CLA

**KDV: Kern DeWenter Viere**  
**CLA: CliftonLarsonAllen**  
**BTVK: Baker Tilly Virchow Krause**  
**Deloitte: Deloitte Touche Tohmatsu Limited**  
**OLA: Office of the Legislative Auditor**

*OLA\* Balance Sheet Only*

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

**Audit Committee**

**Date:** January 21, 2014

**Title:** Review and Approve Financial Audit Plan

**Purpose (check one):**

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

**Brief Description:**

In January 2012, the Board of Trustees directed the Executive Director of Internal Auditing and Vice Chancellor – CFO to complete a study and recommend, by January 2014, a financial audit plan for the future.

**Scheduled Presenter(s):**

Beth Buse, Executive Director, Office of Internal Auditing  
Laura King, Vice Chancellor - Chief Financial Officer  
Edna Szymanski, President - MSU Moorhead  
Pat Johns, President - Lake Superior College

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

<b>ACTION ITEM</b>
<b>REVIEW AND APPROVE FINANCIAL AUDIT PLAN</b>

In January 2012, the Board of Trustees directed the Executive Director of Internal Auditing and Vice Chancellor – CFO to complete a study and recommend, by January 2014, a financial audit plan for the future. The report contains the following recommendations:

**Financial Statement Audits:**

- Move toward a goal to only complete an audit of the systemwide financial statements, revenue fund and federal student financial assistance (A-133).
- Transition period: complete stand-alone audits for fiscal years 2014 - 2016 of four universities (Bemidji State University, Metropolitan State University, St. Cloud State University, and Winona State University)
- Enhance the supplement to the annual systemwide financial report with additional college/university level detailed schedules.

**Internal Control and Compliance Audits**

- Increase internal control and compliance audit coverage.
  - Expand audit resources to enable 3-4 additional reviews annually
  - Explore alternative resources and/or methods to gain audit coverage and provide update to the committee by January, 2015
- Continue refinement of the risk assessment tool used for audit planning.

**By January 2017, complete an analysis to determine:**

- Whether a systemwide audit will meet the needs of all colleges and universities; and the four standalone university audits could be discontinued,
- Evaluate, from a risk perspective, the financial internal control and compliance universe. Include a review of the progress of the Campus Services Cooperative and other regional strategies in establishing common business practices and its impact on the risk equation.

The final report is attached.

***RECOMMENDED COMMITTEE MOTION:***

*The Audit Committee recommends that the Board of Trustees adopt the following 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 authorizes 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), Bemidji State University, Metropolitan State University, St. Cloud State University, Winona State University, and ISEEK for fiscal years 2014 to 2016.*
- *Initiate a competitive bidding process for required NCAA Agreed Upon Procedures engagements for the six state universities with intercollegiate athletics.*

**RECOMMENDED BOARD 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 authorizes 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), Bemidji State University, Metropolitan State University, St. Cloud State University, Winona State University, and ISEEK for fiscal years 2014 to 2016.*
- *Initiate a competitive bidding process for required NCAA Agreed Upon Procedures engagements for the six state universities with intercollegiate athletics.*

*Date Presented to the Board of Trustees: January 22, 2014*

## Financial Audits – Reflection and Looking to the Future

In January 2012, the Board of Trustees directed the Executive Director of Internal Auditing and Vice Chancellor – CFO to complete a study and recommend, by January 2014, a financial audit plan for the future. The study acknowledges that the system has been on the same financial statement audit program for over 10 years, our financial management and assurance operating environment has changed over this period, and it is timely to examine whether our investment of staff time (campus and system office) and audit resources is appropriately balanced. In addition, audit coverage has changed over the past few years over financial internal control and compliance audits and it is appropriate to review the changes.

Board Policy 7.4, Part 1 states that:

*...It is the policy of the Board of Trustees to seek audited financial statements for the system as a whole and individual institutions as designated by Board action. To that end, the Board of Trustees has adopted a multi-year audit plan...*

Other relevant board policies are included in Appendix A.

### Study Objectives

- Analyze the objectives, capacity and cost effectiveness of continuing to conduct 13 individual college and university financial statement audits.
- Evaluate the current process for auditing financial internal control and compliance of colleges and universities.
- Review enterprise risk management strategies for management of financial risk.
- Research practices of other higher education systems.
- Obtain input from the Board of Trustees and college and university senior management on desired assurances.

### Background

#### External Audit Coverage

- The audit contracts for the systemwide audit<sup>1</sup>, revenue fund audit, federal student financial aid, ISEEK, and 13 individual college and university (Table 1 contains audited institution names) audits expired at the end of the fiscal year 2013 audit.
  - The contract with the Minnesota State College and University system's principal auditor (CliftonLarsonAllen) required that the system contract for individual financial statement

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<sup>1</sup> An unaudited supplement to the systemwide financial statements is produced each year that contains several schedules used for financial management purposes, including separate Statements of Net Position and Statement of Revenues, Expenses, and Changes in Net Position for all 37 accredited MnSCU institutions.



audits of colleges and universities so that at least 60% of the system-wide financial activity was covered by individual college and university audits.

- The 13 colleges and universities had been on different contractual cycles than the principal auditor. In 2011, all external auditor contracts were aligned to end after the fiscal year 2013 audit.
- In 2010, by mutual agreement a contractual arrangement with the Legislative Auditor that had been in place since shortly after the 1995 merger ended that provided for financial internal control and compliance audits of colleges without financial statement audits on a three year rotational basis. Mr. James Nobles, the Legislative Auditor, challenged the Audit Committee in 2010 to consider the value and role of obtaining annual financial statement audits for individual colleges and universities. He based his challenge, in part, on questioning whether there were external audiences for whom these audits were prepared. Given limited resources, he wondered whether these resources should be focused on financial internal control and compliance audits. *[The OLA has substantially redirected resources away from MnSCU since the conclusion of the contractual relationship.]*

The last OLA internal control and compliance audit was of Metropolitan State University. The report was issued in January 2012 and included an audit scope of July 1, 2008 through March 31, 2011.

- Table 1 contains a summary of external auditor costs<sup>2</sup> for fiscal year 2013 audit work.

**Table 1: Summary of External Auditor Costs for Fiscal Year 2013**

<b>Audit Firm</b>	<b>Audit</b>	<b>Cost</b>	
CliftonLarsonAllen – Principal Auditor	Systemwide	\$146,000	System Audit Costs: \$210,000
	Revenue Fund	\$28,000	
	Federal Student Financial aid	\$28,000	
	ISEEK	\$8,000	
CliftonLarsonAllen	Southwest Minnesota State University	\$24,203	Institution Audit Costs: \$368,684
	Metropolitan State University	\$25,610	
	Rochester Community and Technical College	\$24,381	
	Minneapolis Community and Technical College	\$26,715	
Kern DeWenter Viere	St. Cloud State University	\$35,150	
	Minnesota State University, Mankato	\$32,300	
	Minnesota State University Moorhead	\$32,300	
	Winona State University	\$31,825	
	Normandale Community College	\$23,500	
	Hennepin Technical College	\$24,000	
Baker Tilly	Bemidji State University and Northwest Technical College	\$34,000	
	Minnesota State Community and Technical College	\$28,400	
	Century College	\$26,300	
<b>Total External Audit Costs</b>		<b>\$578,684</b>	

<sup>2</sup> System Office pays 1/3 of the cost of college and university external audit costs.

## Previous Board of Trustees Decisions:

- July 1999 - the board received a report on obtaining audit financial statements for the system and individual colleges and universities. The report stated that:

*The long-term goal is to prepare MnSCU financial statements, conforming to GAAP, which are sufficiently reliable to receive an unqualified audit opinion. It is the administration's goal to have some confidence in MnSCU's ability to obtain an unqualified audit opinion prior to undertaking the audit effort.*

The Board of Trustees approved the following motion in July 1999:

*The Board of Trustees, in exercising its fiduciary responsibilities, approves the following steps toward attainment of audited MnSCU and institutional financial statements:*

- *Prepare unaudited consolidating financial statements for the fiscal year ended June 30, 1999 for the Minnesota State Colleges and Universities by November 30, 1999. These financial statements should include, at a minimum, a balance sheet and statement of revenues and expenditures by institution.*
  - *Preparation by the administration of appropriate FY2000 MnSCU-wide financial statements, including plant fund statements.*
  - *Contract with the Office of the Legislative Auditor (OLA) for examination of the FY2000 balance sheet.*
  - *Preparation by the administration of MnSCU-wide FY2001 financial statements.*
  - *Contract with the OLA for the audit of MnSCU-wide financial statements for FY2001.*
  - *Preparation of a plan for obtaining audited financial statements at the institutional level for FY2002.*
  - *Directs the Chancellor to incorporate the estimated cost of these efforts in the FY2000 and FY2001 budget planning.*
- December 2001 - the Board adopted the following alternative plan for external audit services:
    - *MnSCU office of Internal Auditing and MnSCU Finance Division would assess the accounting disciplines of individual colleges and universities to determine their readiness for a financial statement audit.*
    - *MnSCU will have to contract for individual audits of colleges and universities that account for 40% of MnSCU revenues and assets or incur additional audit costs of about \$80,000 per year for the MnSCU audit due to the structure of the contract with Deloitte and Touche.*
    - *Contracts for conducting fiscal year 2002 individual audits will be executed for any of the 12 largest MnSCU colleges and universities judged to be ready for an audit.*
    - *For colleges and universities that will not be audited in fiscal year 2002, the accounting procedures checklist will be completed at least quarterly until the college or university establishes the necessary accounting disciplines.*
    - *Individual audits of the remaining colleges and universities will be phased in during fiscal years 2003 and 2004.*

- *The Office of the Legislative Auditor would continue to examine the internal controls and fiscal legal compliance of MnSCU colleges and universities.*
- December 2002 - an additional change was made to the plan with a proposed goal of auditing individual college and university to obtain 60% of revenues audited by 2003 and 75% of revenues audited by 2004.
- January 2005 - the Board of Trustees approved a Strategic Plan for External Audit Services. The plan provided contracting with CPA firms to conduct annual financial statements audits of the larger colleges and universities. The plan provided that the annual audit of the system-level financial statements would be augmented with the stand-alone audits of twelve colleges and universities. This group of stand-alone audits was intended to account for approximately 60% of system-wide financial activity and, thus, improve the cost-effectiveness of the system-level audit.

In addition, the plan included contracting for financial internal control and compliance audits of colleges without financial statement audits through the Office of the Legislative Auditor.

- January 2009 - the Board of Trustees approved an amendment to the strategic plan for external audit services; Normandale Community College was added to the annual audit cycle for fiscal years 2010 and 2011.
- October 2011 – the Board of Trustees approved a new approach for auditing financial internal control and compliance at colleges and universities. The approach assumed some internal control and compliance audits by the Office of the Legislative Auditor and other audits being conducted by the Office of Internal Auditing based on an annual audit risk assessment that included limited college and university audits but rather focused audit resources on auditing financial internal control and compliance cycles.
- January 2012 - the board authorized the system continue with financial statement audits for the 13 colleges and universities for fiscal years 2012 and 2013, for the following reasons:
  - *The 13 colleges and universities have been on different contractual cycles than the principal auditor, it is difficult to make changes in audit coverage until all contracts are aligned to expire at the same time.*
  - *A number of shared services initiatives are currently being implemented and others are being planned, an evaluation will be necessary to determine where audits are appropriate in the future.*
  - *The change in how the system is obtaining financial internal control and compliance audits was implemented in fiscal year 2012, it is too early to know the impact of this change*

The motion instructed the Executive Director of Internal Auditing and Vice Chancellor – CFO to align the external audit contracts with for the systemwide audit work and the 13 colleges and universities to expire after the fiscal year 2013 audit.

In addition, the board instructed the Office of Internal Auditing to:

- *Evaluate the impact of changes in the audit approach for auditing financial internal control and compliance of colleges and universities,*
- *Evaluate the impact to colleges and universities on the shared services initiative,*
- *Further research practices in other systems across the country, and*
- *Develop alternatives for presidents and other system leaders to discuss and evaluate.*

## **Key Differences in Financial Assurance Methods**

It is important to understand the distinction between the objectives of a financial statement audit versus a financial internal control and compliance audit. The objectives are distinctly different.

- Financial statement audits are intended to provide assurance concerning the reliability of the financial information contained in the statements, at a material threshold and do not provide an opinion on internal controls.
- Financial internal control and compliance audits are intended to provide assurance that the process that generates the numbers in the statements are appropriately designed and working as designed. Internal control and compliance audits also provide assurance that applicable finance related legal requirements are met by the procedure or process.

Both financial statement audits and internal control and compliance audits are tools in an effective financial assurance and risk management strategy.

## **Financial Risk Management**

Management has designed a financial risk management program that is grounded in board policy and system procedure. It articulates standards of accountability for colleges and universities as well as members of the system office. The Vice Chancellor – Chief Financial Officer has day to day responsibility for monitoring and measuring compliance with the standards.

## **Elements of the Current Financial Management Program**

- Financial Health and Compliance Measures Oversight – System Procedure 7.3.16
- CFI calculation and review
- Annual review of all colleges and universities (trends and highlights meetings)
- Other Activities
  - Vice Chancellor watch list – monitoring actions
  - Project 2020 - enrollment projection monitoring
  - Institution CFO onboarding/mentoring
- Data reporting, review and input ( operating budgets, enrollment outlook, financial outlook, auxiliary program health, etc)

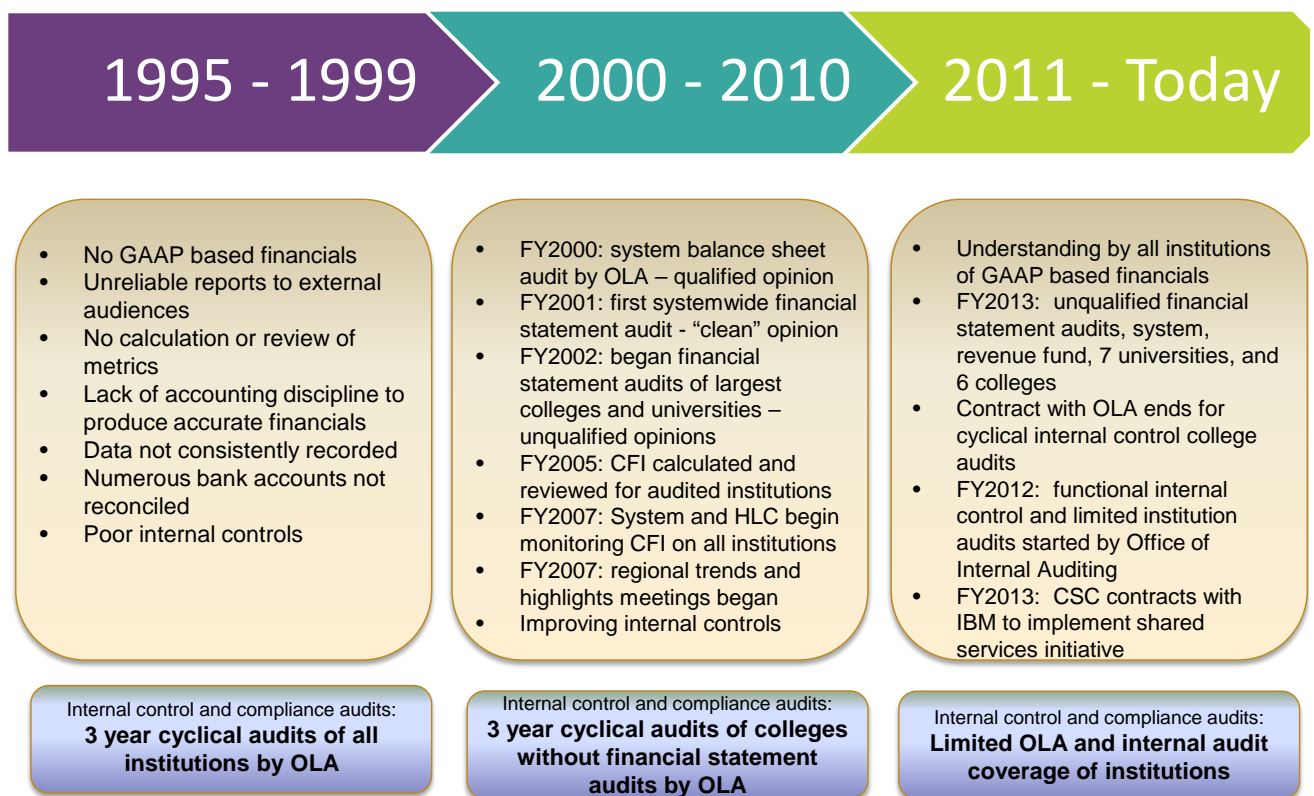
## **Audit Program**

Board policy authorizes the Office of Internal Auditing to provide assurance services that inform interested stakeholders about the reliability and accuracy of information and information systems. The policy directs Internal Auditing to coordinate all audit-related activities conducted

by the Legislative Auditor and external auditors, including follow-up on unresolved audit findings. The Board of Trustees also approves an annual audit plan based on a risk assessment. As discussed earlier, in October 2011, the Board of Trustees adopted a new approach for auditing financial internal controls and compliance. The new approach significantly reduced the number of internal control and compliance audits being conducted at individual colleges and universities. Under the past contract with the Legislative Auditor, approximately eight individual college audits were occurring a year. Under the current approach, one or two audits are occurring each year.

Figure 1 depicts a timeline of financial risk management in the system. In the first few years after the system merged the financial management environment was weak and the board had little or no reliance on financial information that was presented nor in the internal controls that existed. In July 1999, the Board of Trustees put an external audit approach in motion. Over the next decade many improvements were made to the financial management program to lower risk.

**Figure 1: Financial Risk Management Timeline**



There is no doubt that there has been substantial improvement in the financial management of the system and the colleges and universities since fiscal year 2000.

- The system has had unqualified audit opinions every year since 2001 and individual colleges and universities with audited financial statements have had unqualified audit opinions since the audits began. The program was begun in 2000 in part to instill the discipline, rigor, and

financial management knowledge now found present in the financial procedures of the system office and the colleges and universities.

- Further enhancements to the financial management program, most notably the addition of the CFI metric, have improved the capacity at colleges without individual financial statement audits.
- In the early years of internal control and compliance audits, individual colleges and universities had many audit findings that were classified as ‘critical’<sup>3</sup>. While there are fewer college and university internal control and compliance audits, the significance of the issues have substantially lessened and very few ‘critical’ audit findings are identified.
- Over the past couple of years, the system has invested resources into the Campus Services Cooperative. A major strategy of the CSC is the Shared Services initiative which plans to transform business processes and non-strategic activities across the system to achieve: economies of scale, standardized processes, efficient and effective service, improved data quality, leveraged skills and investments. Currently, the internal control and compliance environment is complex since each college and university defines its own business practices.

## Research

### Higher Education Systems:

Financial Statement Audits: The hybrid approach used by the Minnesota State Colleges and Universities (some institutions with stand-alone financial statement audit and others without separate audits) was not used by any other higher education system. For example our research found that:

- University of Minnesota: includes five accredited institutions, only a systemwide audit is conducted by Deloitte. An addendum to the financials contains separate statements on the five institutions.
- University of Wisconsin System: includes 13 universities that are separately accredited and 13 colleges that are accredited together, only a systemwide audit is conducted by the State of Wisconsin Legislative Audit Bureau. Separate unaudited financial statements are prepared for each university and one combined financial statement for the colleges.
- California State University System: includes 23 accredited state universities. Prior to fiscal year 2012, state law required that at least 10 universities have a separate financial statement audit each year. State law was modified to eliminate this language and beginning in fiscal year 2012 a systemwide audit was only conducted by KPMG. A supplement to the financials contains separate unaudited financial statements for the 23 universities.

Internal Control and Compliance Audits: it is difficult to complete a comparison of financial internal control and compliance audit approaches due to a few factors:

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<sup>3</sup> Internal Auditing classification of audit findings, a critical classification is one that merits immediate attention and remedy. Without prompt corrective action the reliability or integrity of information vital for making significant decisions or having a material impact on external reporting is questionable, or a high risk of potential loss exists.

- **Legislative or State Auditor Coverage:** some systems have significant audit coverage by their state auditor.
- **Internal Audit Structure:** some systems have substantially more resources invested in internal audit and may for example have internal auditors located at each college or university. In these cases, the internal auditors determine their own audit scopes.
- **Audit Universe Definition:** systems define their audit universe differently, for example, some systems may delineate departments or colleges within an institution as an auditable unit rather than the institution itself.

A comparison of higher education system internal audit staffing resources completed by the Association of College and University Auditors shows that the MnSCU internal audit function is in the bottom third based on various metrics.

**Higher Learning Commission:** Audited financial statements are very useful for satisfying accreditation requirements. Accrediting agencies use audited financial statements as evidence of fiscal accountability and sound financial management. The agencies are amenable, however, to accepting alternative forms of evidence, such as supplemental financial schedules, in lieu of audited financial statements.

The HLC specifically states that institutions are to undergo an external audit by a certified public accountant or a public audit agency that reports financial statements on the institution separately from any other related entity or parent corporation. For private institutions the audit is annual; for public institutions it is at least every two years. We consulted with leadership at the HLC to determine if they would have concerns if we changed our current practice of having standalone financial statements audits of 13 of our 37 accredited institutions. The leadership did not express any concern if we chose to limit the number of standalone audits.

**Minnesota Management and Budget:** The Minnesota State Colleges and Universities system level financial activity is incorporated and reported as a part of the state’s larger Comprehensive Annual Financial Report. The CAFR represents the state’s audited annual statements for all activity. The information is audited either by the state’s auditors, or incorporated after reliance on the work of other auditors. Since the inception of MnSCU’s annual audit program, the Office of the Legislative Auditor has relied upon the work of MnSCU’s external auditors in its rendering of an opinion on the CAFR. Were MnSCU to cease attainment of an annual opinion on the systems’ financial activity, MMB would have to expand its audit engagement with the OLA to obtain acceptable assurance levels.

## **Input from Key Stakeholders**

Presidents were asked to consult with their leadership teams at each college and university on both financial statement audits and financial internal control and compliance audits. We received a response from 25 of 30 presidents, a summary of their responses were:

- Generally in favor of completing a systemwide financial statement audit only; and expanding internal control and compliance reviews for colleges and universities.

- A few state universities have a specific campus or community need for continuing a standalone financial statement audit
- Generally support continued production of supplement schedules to the annual systemwide financial statement to assure college and university level schedules for campus use.

## Conclusion and Recommendations

### Recommendations

#### Financial Statement Audits:

- Move toward a goal to only complete an audit of the systemwide financial statements, revenue fund and federal student financial assistance (A-133).
- Transition period: complete stand-alone audits for fiscal years 2014 - 2016 of four universities (Bemidji State University, Metropolitan State University, St. Cloud State University, and Winona State University)
- Enhance the supplement to the annual systemwide financial report with additional college/university level detailed schedules.

#### Internal Control and Compliance Audits

- Increase internal control and compliance audit coverage.
  - Expand audit resources to enable 3-4 additional reviews annually
  - Explore alternative resources and/or methods to gain audit coverage and provide update to the committee by January, 2015
- Continue refinement of the risk assessment tool used for audit planning

#### By January 2017, complete an analysis to determine:

- Whether a systemwide audit will meet the needs of all colleges and universities; and the four standalone university audits could be discontinued,
- Evaluate, from a risk perspective, the financial internal control and compliance universe. Include a review of the progress of the Campus Services Cooperative and other regional strategies in establishing common business practices and its impact on the risk equation.



## Appendix A - Relevant Board Policies

- Board Policy 1A2 Board of Trustees, Part 5, Subpart E,

*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.*

- Board Policy 1D.1 Office of Internal Auditing, Part 7

*The Executive Director of Internal Auditing shall present to the Audit Committee and annual audit plan based on a systemwide risk assessment. The plan shall include all Internal Auditing and external audit activities planned for the ensuing fiscal year.*

- Board Policy 7.4 Financial Reporting states

*Part 1. Policy Statement. It is the policy of the Board of Trustees to provide financial statement information that is accurate, timely, reliable and consistent. Information provided to the state as part of the state-wide financial audit will be of high quality and consistent with standards of excellence. The chancellor and presidents will be dedicated to continuous improvement of financial reporting.*

*It is the policy of the Board of Trustees to seek audited financial statements for the system as a whole and individual institutions as designated by Board action. To that end, the Board of Trustees has adopted a multi-year audit plan. The chancellor shall periodically advise the Board of progress toward the Board's audit plan.*

*Part 2. Responsibilities. All financial reports shall be prepared in accordance with the provisions of Minnesota Statutes, official directives of Minnesota Management and Budget, and in conformity with the guidelines of the Governmental Accounting Standards Board (GASB), and the guidelines of the National Association of College and University Business Officers (NACUBO). The colleges and universities must provide accurate, timely, reliable and consistent financial information necessary for the prudent stewardship of the colleges and universities and for systemwide reporting. The reports shall be approved by the vice chancellor - chief financial officer.*

*The annual Minnesota State Colleges and Universities financial report shall be prepared under the direction of the vice chancellor - chief financial officer and filed with Minnesota Management and Budget as specified by law and governmental accounting standards.*

*Part 3. Accountability/Reporting. Financial statements will be presented annually to the Board of Trustees for its review and authorization to release.*

- Board Policy 8.3, Part 4 sets forth foundation audit requirements:

*Subpart D. Foundation reports. The contract shall require that the related foundation annually provide to the college or university and the system office a report as set forth below. The chancellor shall establish the deadline for filing the report and any provision for filing extensions in system procedure. The annual report shall include the following information:*

- 1. A copy of the annual report required to be filed with the attorney general pursuant to Minnesota Statutes 309.53. A related foundation that is not required to file audited financial statements with the attorney general pursuant to Minnesota Statutes 309.53, Subd. 3, shall submit an audited financial statement and the information in Subpart D(2) at least once every three years.*
- 2. Any written communication from an independent auditor that discloses any material weakness in internal controls identified in conjunction with the audit of financial statements. For any material weakness reported, the related foundation shall provide a written response which includes its explanation for accepting the risks associated with the weakness or its plans to implement corrective action.*
- 3. A report on return of value for the prior fiscal year, including the value of administrative support received and the value returned to the college, university, or system and its students.*

## Financial Audits – Reflection and Looking to the Future



Beth Buse, Executive Director, Internal Auditing  
Laura King, Vice Chancellor Finance/CFO  
Edna Szymanski, President MSU Moorhead  
Pat Johns, President Lake Superior College

January 21, 2014

## Minnesota State Colleges and Universities

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

## Today's Agenda

- Project Description
- Background
  - Financial Audit Comparison
- Finance – Risk Management
- Research
  - Comparisons to Higher Education Systems
  - Requirements for Accreditation
- Survey of Colleges and Universities
- Recommendations
- Next Steps



## Project Description

- In January 2012, the Board of Trustees requested a study **with recommendations** by January 2014, on a financial audit plan for the future.
- The study included:
  - Analyzing the objectives, capacity and cost effectiveness of continuing to conduct 13 individual college and university financial statement audits (*7 universities, Century, Hennepin, Minneapolis, M State, Normandale, and Rochester*).
  - Evaluating the current process for auditing financial internal control and compliance of colleges and universities.
  - Reviewing enterprise risk management strategies for management of financial risk.
  - Researching practices of other higher education systems.
  - Obtaining input from the Board of Trustees and senior management on desired assurances.
  - Consulting with groups impacted by recommendations.



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## Recommendations

- **Financial Statement Audits:**
  - Move toward a goal to only complete an audit of the systemwide financial statements and revenue fund.
  - Transition period: complete stand-alone audits for fiscal years 2014 - 2016 of four universities (*Bemidji State University, Metropolitan State University, St. Cloud State University, and Winona State University*)
  - Enhance the supplement to the annual financial report with additional 'Trends and Highlights' schedules.
- **Internal Control and Compliance Audits**
  - Increase internal control and compliance audit coverage.
    - Expand audit resources to enable 3-4 additional reviews annually
    - Explore alternative resources and/or methods to gain audit coverage and provide update to the committee by January, 2015
  - Continue refinement of the risk assessment tool used for audit planning
- **Future: By January 2017, complete analysis to determine:**
  - Whether a systemwide audit will meet the needs of all colleges and universities; and the four standalone audits could be discontinued.
  - Evaluate, from a risk perspective, the financial internal control and compliance universe to determine appropriate internal audit investment. Include a review of the progress of the Campus Services Cooperative in establishing common business practices and regionalizing some practices and its impact on the risk equation.



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## Background: Financial Audit Comparison

- **Financial Statement**
  - Provides an opinion on whether financial statements are presented fairly, in all material respects.
  - Audit focus is primarily on largest financial activities.
  - Materiality varies - institutions between \$500,000 and \$2 million.
  - Audits consider internal controls over financial reporting but do not express an opinion on their effectiveness.
  - Audited financial statements contain a management analysis and detailed information in notes to the statements.
- **Internal Control and Compliance**
  - Provides for a tone at the top.
  - Greater flexibility in determining audit scope.
  - Provides assurance that internal controls are appropriately designed and working.
  - Provides assurance that MnSCU policies and finance-related legal provisions were complied with.
  - Identifies weaknesses in internal controls.
  - Identifies opportunities to improve business processes.



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## Financial Risk Management Timeline

1995 - 1999

2000 - 2010

2011 - Today

- No GAAP based financials
- Unreliable reports to external audiences
- No calculation or review of metrics
- Lack of accounting discipline to produce accurate financials
- Data not consistently recorded
- Numerous bank accounts not reconciled
- Poor internal controls

- FY2000: system balance sheet audit by OLA – qualified opinion
- FY2001: first systemwide financial statement audit - “clean” opinion
- FY2002: began financial statement audits of largest colleges and universities – unqualified opinions
- FY2005: CFI calculated and reviewed for audited institutions
- FY2007: System and HLC begin monitoring CFI on all institutions
- FY2007: regional trends and highlights meetings began
- Improving internal controls

- Understanding by all institutions of GAAP based financials
- FY2013: unqualified financial statement audits, system, revenue fund, 7 universities, and 6 colleges
- Contract with OLA ends for cyclical internal control college audits
- FY2012: functional internal control and limited institution audits started by Office of Internal Auditing
- FY2013: CSC contracts with IBM to implement shared services initiative

Internal control and compliance audits:  
**3 year cyclical audits of all institutions by OLA**

Internal control and compliance audits:  
**3 year cyclical audits of colleges without financial statement audits by OLA**

Internal control and compliance audits:  
**Limited OLA and internal audit coverage of institutions**

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## Finance – Risk Management

- **Current audit approach began with Board of Trustees direction in July 1999**
  - Goal of program was attainment of unqualified opinion on systemwide financial statements
  - Progressive financial statement audit program expansion between 1999 and 2009 (*Since 2003 – audits of 12 largest colleges and universities, representing 60 percent of financial activity*)
  - For past four years, audited financial statements: systemwide, revenue fund, seven universities, and six colleges
    - FY2013 external audit costs were \$580,000; not including internal staff costs
- **Financial management improvements since 1999**
  - Financial health and compliance measures oversight
  - CFI calculation and review
  - Annual review of all colleges and universities (*trends and highlights meetings*)



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## Finance – Risk Management

(continued)

- **Financial internal control and compliance**
  - Current State – variable business practices at colleges and universities
  - Planned State – Campus Services Cooperative and regional collaborations
    - Align business practices
    - A timeline and scope is not set
  - **Audit Coverage**
    - Office of the Legislative Auditor:
      - Three year cyclical college internal control and compliance audits by Legislative Auditor ended in 2010
      - January 2012 – Metropolitan State University
      - Future: limited coverage
    - Internal Audit: Annual audit plan based on a risk assessment
      - Institution audits: 2012 – Southwest Minnesota State University, 2013 – Bemidji State University and Northwest Technical College, 2014 - Minnesota State University Moorhead (planned)
      - Functional area audits: 2012 – State University Payroll, 2013 – Banking Controls, 2014 - Purchasing Cards (In progress) and Grant Management (planned)
      - Audit finding follow-up



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## Research

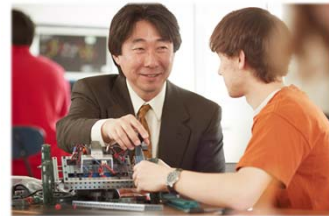
- Higher Education Systems
  - Separate financial statement audits of some colleges and universities is unusual
    - Example systemwide audit only systems:
      - University of MN
      - University of WI system
      - California State University System
    - Difficult to compare internal control and compliance audit approaches
      - Legislative/State Auditor coverage
      - Size and structure of internal audit offices
        - MnSCU staffing in bottom third compared to other systems
- Higher Learning Commission
  - Finance related criteria
  - Supplement should be sufficient



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## Survey of Colleges and Universities

- Past Surveys
- Current Survey Results
  - Received responses from 25 of 30 presidents
  - Generally in favor of completing a systemwide financial statement audit only; and expanding internal control and compliance reviews for colleges and universities.
  - A few state universities have a specific campus or community need for continuing a standalone financial statement audit
  - Generally support continued production of supplement schedules to the annual systemwide financial statement to assure college and university level schedules for campus use.



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## Recommendations

- **Financial Statement Audits:**
  - Move toward a goal to only complete an audit of the systemwide financial statements and revenue fund.
  - Transition period: complete stand-alone audits for fiscal years 2014 - 2016 of four universities (*Bemidji State University, Metropolitan State University, St. Cloud State University, and Winona State University*)
  - Enhance the supplement to the annual financial report with additional 'Trends and Highlights' schedules.
- **Internal Control and Compliance Audits**
  - Increase internal control and compliance audit coverage.
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  - Continue refinement of the risk assessment tool used for audit planning
- **Future: By January 2017, complete analysis to determine:**
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  - Evaluate, from a risk perspective, the financial internal control and compliance universe to determine appropriate internal audit investment. Include a review of the progress of the Campus Services Cooperative in establishing common business practices and regionalizing some practices and its impact on the risk equation.



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## Next Steps

- **January 2014** – Board approval of financial audit plan
- **February and March 2014** – Complete RFP for external audit services for FY 2014 - 2016
- **April 2014** – Board approval of external audit firm(s)
- **January 2017** – Analysis and proposed recommendation for future financial audits



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## Recommended Motion

- **RECOMMENDED COMMITTEE ACTION:**
  - The Audit Committee recommends that the Board of Trustees adopt the following motion:
- **RECOMMENDED MOTION**
  - The Board of Trustees endorses the recommendations offered by the Executive Director of Internal Auditing and Vice Chancellor – CFO regarding the future financial audit plan for the system.

