



**AUDIT COMMITTEE
OCTOBER 21, 2014
10:30 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 June 18, 2014 (pages 1-7)**
- (2) Internal Audit Update
- (3) Review Annual Internal Auditing Report for FY2014 (pages 8-20)
- (4) Role and Responsibilities of Audit Committee Members (pages 21-24)

Members

Philip Krinkie, Chair
Duane Benson, Vice Chair
Ann Anaya
Robert Hoffman
Michael Vekich
Erma Vizenor

Bolded items indicate action required.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING MINUTES
June 18, 2014**

Audit Committee Members Present: Trustees Phil Krinkie, Elise Ristau, Michael Vekich, and David Paskach (by phone).

Audit Committee Members Absent: Trustee Ann Anaya.

Others Present: Chancellor Steven Rosenstone, President Pat Johns, Trustees Duane Benson, Margaret Anderson Kelliher, Alexander Cirillo, Cheryl Dickson, Dawn Erlandson, Maria Peluso, and Louise Sundin.

The Minnesota State Colleges and Universities Audit Committee held its meeting on June 18, 2014, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Vice Chair Krinkie called the meeting to order at 9:21 a.m.

1. Minutes of May 21, 2014

The minutes of the May 21, 2014 Audit Committee were approved as published.

2. Internal Audit Update

Ms. Beth Buse, Executive Director of Internal Auditing, began by stating that she had met with Trustee Vekich, Trustee Anaya, and Vice Chancellor Laura King to develop a protocol for approving non-audit services by the system external auditor, CliftonLarsonAllen, LLP. She stated that board policy allows for the engagement of the system external auditor for other services but requires a review by the audit committee. Ms. Buse stated that there is a request from Anoka Technical College to contract for some consulting services with CliftonLarsonAllen. As part of the protocol, a quality assurance team with CliftonLarsonAllen reviewed the request to ensure that their independence would not be impaired by the project, and they have submitted a letter to Audit Committee Chair Anaya with that assurance. Both Vice Chancellor King and Ms. Buse concurred that independence would not be impaired on this particular engagement. Finally, the protocol requires Ms. Buse to inform the committee as part of an update to include in the minutes.

Ms. Buse gave a brief update on the payroll audit work at Metro State University. The external review team that was assembled by Vice Chancellor Mark Carlson completed their work and internal auditing staff has begun testing those results. She stated that she would work with audit committee leadership to determine the best way to communicate the results of that audit work.

Trustee Sundin asked if faculty and staff at Metropolitan State University were getting paid correctly. Ms. Buse stated that she had no indication that there were any ongoing concerns, but she added she would be able to offer the committee assurance once the audit work was complete.

Trustee Krinkie stated that he has asked for updates at every opportunity and he has been assured that staff are being properly compensated, and work is happening to ensure that this won't happen at Metropolitan State University or at any of our campuses again. He added that he believed it was appropriate to continue to monitor and ensure that the compensation practices were correct.

Ms. Buse agreed and added that a tremendous amount of work had been done at the university over the last several months, in a very complicated subject matter. Faculty payroll is very complex and thus it has taken several months for the external review team to do a comprehensive review. She stated that she planned to come back to the audit committee to discuss the results and recommendations for the future to ensure that we have appropriate controls in place to prevent this from happening again.

3. Approve Annual Audit Plan for Fiscal Year 2015

Ms. Buse highlighted key points in the annual audit plan for fiscal year 2015. She stated that board policy requires the audit committee review the audit plan each year and Internal Auditing Standards requires that the plan be approved by the Board of Trustees.

Ms. Buse reminded members that the committee ended their discussion on the risk assessment results in May with the plan that Ms. Buse would come back with a proposed audit plan for review and approval. She added that although the audit plan was ambitious, she would come back to the committee and propose changes when necessary based on changing priorities.

Ms. Buse reviewed the risk assessment summary. She reminded members that as part of the discussion in May, she and Vice Chancellor King had agreed to take a focused look at some of the drivers for the risk model over the next year to determine if there were any changes that needed to be made. She stated as less college and university specific audit work is done, the driver that looks at the number of years since the last audit becomes a bigger factor and there was a question about whether that factor should be weighted differently, for example, than the materiality of colleges and universities.

Ms. Buse stated that Trustee Vekich had brought up a question of missing risk factors such as culture and tone at the top. She added that it was one of the areas where internal auditing might be able to do some work in the coming year. The risk that a drop in enrollment has on institutions in these times of constrained resources was another area where audit work might be helpful. She stated that there wasn't a specific project planned but that it was a topic that had come up for discussion. She asked trustees for other suggestions where internal audit could focus their resources in the next year.

Trustee Benson asked about a project that would look at how the board's ability to manage risk is affected when decisions are taken out of the board's control, such as with a mandated tuition freeze. Ms. Buse stated that it was an important factor in understanding the transparency of where those restraints may require the system to accept more risk in certain

areas than the board is comfortable accepting. She added that work being done in Charting the Future and with the Campus Services Cooperative might help in mitigating risks in other ways than have been done in the past because of our constrained resources.

Ms. Buse highlighted information in the proposed audit plan. She stated that more time has been spent on fraud inquiry and investigation work in the last few years than in the past. She added that she was working to create an investigation position to focus in that area. The creation of this position will help keep the rest of the audit plan on track because investigations can be very disruptive.

Trustee Krinkie asked if there had been discussions regarding allocation of costs for investigations. Ms. Buse stated that she and Vice Chancellor Laura King had not yet discussed the idea of billing costs for investigations back to the campuses. She stated that her office worked with the colleges and universities to determine the scope of each investigation, and relied on them to do some of the work. She added that in some cases, when detailed forensic work or outside expertise was needed, the colleges and universities have covered those costs.

Ms. Buse stated that the fraud policy would need to be reviewed in the next year. That policy might be changed to include a hotline and expectations about who would cover the costs of investigations. She stated that she has had conversations with Vice Chancellor Carlson and General Council Olson on how investigative services might benefit as a shared service through the Campus Services Cooperative.

Ms. Buse reminded the committee that the two primary revisions in the financial audit plan were to reduce the number of financial statement audits at individual colleges and universities and then increase the number of internal control and compliance audits. The proposed plan included four internal control and compliance audits at Minnesota State University, Mankato, Minneapolis Community and Technical College, Dakota County Technical College and Itasca Community College. Ms. Buse noted that the four institutions represented 18.5% of system assets in fiscal 2013.

Ms. Buse stated that system leaders agreed with the proposed plan, but she noted that there were mixed thoughts about the audit at Itasca Community College, because of the small size of the institution from a financial standpoint. She added that she had spoken with the presidents at the four institutions and President Collins had offered her assurance that any audit results from Itasca would be shared with the other colleges in the Northeast Higher Education District from a continuous improvement perspective.

Ms. Buse stated that planning for the Grant Management audit, which had been part of the fiscal 2014 audit plan, was currently being done, but field work would be conducted in early fiscal year 2015. In addition, the proposed fiscal year 2015 audit plan included two projects that came out of the risk assessment work. International and Study Abroad Programs would be an academic topic and the Clery Act would be a regulatory compliance topic.

Ms. Buse stated that they planned to do high-level security assessments of key controls at the same four institutions that will have financial internal control and compliance audits. In addition an IT audit is planned of college and university controls over computers and networks allowed access to the enterprise data warehouse. The final IT audit would be network security controls for enterprise computer systems. That audit work would be concentrated in the ITS division within the system on networks that provide support for all colleges and universities.

Ms. Buse reviewed the advisory services and other internal auditing activities for the next year. Ms. Buse stated that policy 1C.2 Fraudulent and Other Dishonest Acts and policy 1D.1 Office of Internal Auditing, would both need to be reviewed in 2015. She noted that policy 1D.1 needed some technical changes to ensure compliance with internal auditing standards.

Ms. Buse noted that Trustee Vekich had requested that the Office of Internal Auditing begin reviewing board expenditures again. She stated that her office had done those reviews in the past and would work with Trustee Vekich and the Executive Committee to review the expenditures in 2015.

Ms. Buse reviewed the external audit activity that her office would continue to monitor and coordinate. She reviewed the administrative items in the plan.

Trustee Vekich asked for assurance that approving the proposed audit plan for fiscal year 2015 would not preclude the committee from having further discussion related to culture and tone at the top. Ms. Buse assured the committee the plan would be flexible. She added that it was also her intention to build a control environment type interview or questionnaire as part of the four college and university internal control and compliance audits.

Trustee Ristau asked if the plan would include an enrollment audit. Ms. Buse stated that at this time there wasn't a role for audit in the work that Vice Chancellor King talked about last month. But she added that if something would come out of that work, the audit plan would be flexible enough to do some audit work.

Chancellor Rosenstone stated that he thought the work that Director Buse had laid out was important work to be done to give the Board assurances in key areas of the operations of our colleges and universities and the system. He added that there was still the bigger question of the board's need to have a deeper dive into the strategic risks. He agreed with Trustee Vekich's suggestion that there be a topic at the Board retreat in September, where trustees could take more time for discussion. He stated that he had asked each president, as part of their performance review, to identify the most important strategic risks that they believe their college or university faces and the strategies employed to manage those risks. That input might modify the list for trustees to discuss. He added that that the Leadership Council retreat was scheduled for a week before the Board retreat and they would be having their annual risk assessment discussion.

Trustee Krinkie asked for background on the increase of investigations and the plan for filling the manager of investigations position. Ms. Buse stated that there had been a

significant increase in the last several years in the use of internal auditing resources in regards to conducting fraud investigations and inquiry work.

She didn't have an answer as to why there had been an increase, but she felt that some of it was related to the number of transitions at the colleges and universities. She also thought that some increase could be attributed to more awareness of the requirement to bring issues forward. She stated that her office spends well over one position's time in a year. With the addition of the new manager of investigations position, she hoped to build more consistency in approaches, become more efficient in how issues were reported, and work consistently with General Council and Vice Chancellor Mark Carlson and the labor relations staff. Ms. Buse stated that she was working with human resources and was hopeful to have the position classified within the next month and would look to fill the position shortly thereafter.

President Pat Johns, Lake Superior College stated that the proposed audit plan was very robust. He asked if it would require one hundred percent of existing staff to fulfill the plan, and if there was room for adjustments for other issues that might come up through the year. Ms. Buse stated that at this point there was not a lot of flexibility built in the plan for current staffing resources. She stated that if issues came up throughout the year, some adjustments would need to be made. She added however, that she hoped to fill the manager of investigations position with an individual who would be able to help with audits if there was a downturn in investigations.

President Johns offered his support of an internal control and compliance audit at Itasca Community College. He believed there could be benefits across the system and he added that there were different dynamics at smaller institutions. Trustee Krinkie agreed.

RECOMMENDED COMMITTEE ACTION

On June 18, 2014, the Audit Committee reviewed the Fiscal Year 2015 Internal audit plan and approved the following motion:

RECOMMENDED BOARD OF TRUSTEES MOTION

The Board of Trustees approves the Office of Internal Auditing annual audit plan for fiscal year 2015.

4. Review Results from Capital Construction Audit Pilot

Ms. Buse explained that the decision to do a pilot capital construction audit came, in part, out of discussions with other systems and in other industry sectors that have capital construction projects audited for compliance to contract terms as a best practice. She stated that she and Vice Chancellor King would assess the results of the audit to determine what type of program, if any, might be incorporated into the capital construction project program within the system. She stated that they planned to bring their assessment and suggestions for the future back to the

committee later in the year.

Ms. Buse introduced Mr. Matt Gardner, Risk Advisory Services Manager, with the firm of Honkamp Krueger & Co. Mr. Gardner gave a brief background about his experience and about the firm. He explained how construction audits can add value by identifying overcharges, non-allowable and other miscellaneous disputable changes, cost avoidance, identifying and managing risks, developing and maintaining financial controls and avoiding litigation.

Mr. Gardner explained that two construction projects were identified based on the construction delivery method that was chosen and any known concerns about the construction projects.

Hennepin Technical College's Learning Resource Center & Student Service Center Renovation project had a design/bid/build lump sum agreement. Mr. Gardner noted that they would typically see a 1-2% recovery for this type of agreement. There was \$32,937 in cost recovery opportunities identified which was represented about 5%.

Minneapolis Community and Technical College's Workforce Program Renovation was a construction manager at risk project with a guaranteed maximum price agreement. There was \$27,252 in cost recovery opportunities identified.

Mr. Gardner summarized their audits by saying that detailed requirements on how change orders should be executed and processed should be enhanced. Contract language should be updated to ensure the utmost in owner protection. He noted that there was some opportunity for additional recoveries in the future with some contract language changes. There should be competitive bidding requirements for contractor performed work. Finally, consistency in the project management team and proper knowledge transfer was important.

Trustee Vekich thanked Mr. Gardner for his report and for the good work. He asked if there was a management response to the report. Ms. King stated that a management response was not issued for this report. She noted that there had been an exit with the auditors and they walked through their work product and answered questions.

Trustee Vekich asked how the audit findings were being added to the system construction project programs and contracts going forward. Ms. King stated that there had been really good discussion about the recommendations during the exit conference. She added that work had already begun to modify some of the form contracts and form methods. Ms. King added that this was unique because negotiations were still underway in determining what would be reimbursed back to the colleges from the contractors. She also noted that the final pilot results would still need to be evaluated and a proposal brought back to the committee at a future meeting.

Trustee Vekich asked Mr. Brian Yolitz, Associate Vice Chancellor for Facilities, how he approached the pilot report findings and how had they been incorporated into the contracting process. Mr. Yolitz stated the timing of the pilot project was fortunate because they were going through a review and update the AIA documents that govern general conditions,

operations, and the various contracting methods. He stated that they would take full advantage of the results of this work and would be incorporating them into the regular update process.

Trustee Vekich asked what management's role had been in the selection of the projects and their involvement with the audit process. Mr. Yolitz explained that Ms. Heidi Myers, System Director for Design & Construction, had significant input in selecting the two projects for the pilot. He added that throughout the process, the program manager at the system office as well as the project managers at the campuses were involved in a dialog and the follow-up of individual findings and clarifications as well as reviewing the contract documents. Mr. Yolitz stated that he was pleased with the amount of management involvement, and he anticipated that they would continue to be involved as a strategy for the future developed.

Trustee Vekich wanted a better understanding of the cost benefit of the two pilot projects. He asked if the negotiations were finalized. Mr. Gardner stated that negotiations between the institutions and respective general contracts are still in progress. Ms. Buse noted that for the project at Hennepin Technical College there was a retainage in excess of \$200,000 withheld as negotiations were ongoing. She further noted that for the project at Minneapolis Community and Technical College, there was two phases to the work that Mr. Gardner and his team performed. A certain percentage of identified opportunities was collected at the end of the first phase, and they had just wrapped up work in the last couple months on the second half, so those negotiations were ongoing.

Trustee Sundin asked if the audit looked at the requirement of minority and women contractors and subcontractors. Mr. Gardner stated that during the payment applications testing, which was done on a sample basis, they were able to verify and validate that the projects were using the correct percentage minority and woman contractors and subcontractors. Trustee Sundin state that the information should be specifically listed as follow up to be added regularly to our internal reviews.

Trustee Krinkie thanked Mr. Gardner for his presentation and the fine work. Ms. Buse again stated that they planned to evaluate the results and come back to the committee with a proposal for the future as it relates to capital construction audits.

The meeting was adjourned at 10:31 a.m.

Respectfully submitted,
Darla Senn, Recorder

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

Name: Audit Committee

Date: October 21, 2014

Title: Review Annual Internal Auditing Report for FY2014

Purpose (check one):

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

Brief Description:

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

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing

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

INFORMATION ITEM

REVIEW ANNUAL INTERNAL AUDITING REPORT FOR FY2014

The annual report for fiscal year 2014 is attached.

Date Presented to the Board of Trustees: October 21, 2014

Internal Auditing Annual Report

Fiscal Year 2014

Office of Internal Auditing

October 21, 2014



Minnesota
STATE COLLEGES
& UNIVERSITIES

Reference Number 2014-07

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Minnesota
STATE COLLEGES
& UNIVERSITIES

Internal Auditing Annual Report Fiscal Year 2014

Office of Internal Auditing
Reference Number 2014-07

October 21, 2014

October 21, 2014

Members of the Board of Trustees

I am pleased to submit the annual report on the Office of Internal Auditing for fiscal year 2014 as required by Board Policy 1D.1 part 8.

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

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

Thank you for your confidence and support in our work.

Beth Buse, CPA, CIA, CISA
Executive Director

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7	Advisory Services
7	Planning
7	Staffing
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Summary

The audit plan approved by the Board of Trustees in June 2013 provided the foundation for the internal auditing activities carried out in fiscal year 2014. Some noteworthy activities included:

- **Financial Internal Control and Compliance Audits:**
 - Purchasing Cards
 - Minnesota State University Moorhead
- **Information Technology Audits:**
 - ImageNow
 - Learning Management System, Desire2Learn
- **External Audits:**
 - Financial Statements - CliftonLarsonAllen, the principal auditor for the system, and two other audit firms gave unqualified (clean) financial statement audit opinions for the system and 13 colleges and universities for fiscal year 2013.
 - Student Financial Aid – the system contracts with CliftonLarsonAllen to complete required audit work on federal financial aid. The Minnesota Office of Higher Education completes compliance audits of state aid programs.
- **Follow-up:** colleges and universities continued to make progress in resolving outstanding audit findings.
- **Inquiries and Investigation:** Internal Auditing continues to spend a significant amount of time in conducting fraud inquiries and investigations. Fortunately, there were no significant losses.

I. Assurance Services

Internal Auditing spent the majority of its time working on assurance services which, depending on the scope of the audit, may focus on the quality and reliability of information, legal compliance, and operational efficiency and effectiveness. The following assurance service projects were conducted during fiscal year 2014.

Financial Internal Control and Compliance Audits

Fiscal year 2014 was the third year in implementing a different approach¹ for obtaining financial internal control and compliance audit coverage within the system. The approach contains a combination of limited stand-alone institution audits with a bigger focus on systemwide functional area audits. The following audits were completed and discussed with the Audit Committee:

- **Purchasing Card Controls:** In April 2014, Internal Auditing released an internal control and compliance audit on purchasing card controls.

MnSCU's system office, its 37 accredited colleges and universities, and the Northeast Higher Education District's Northeast Service Unit (NESU) each had Pcard programs. Some had relatively large programs, with hundreds of cardholders including staff and faculty, others had very limited programs with a few cardholders such as purchasing staff or the president's cabinet. Each was responsible for internal controls related to purchasing card activity.

Our audit concluded that institutions generally had adequate internal controls over purchasing card activities and, for item tested, generally complied with finance related legal requirements. However, the report identified seven internal control and compliance findings. We also identified several benefits and challenges for system leaders to consider as MnSCU moves to a single Pcard provider and contract negotiable by the Campus Service Cooperative.

- **Minnesota State University Moorhead:** In May 2014, Internal Auditing released an internal control and compliance audit of Minnesota State University Moorhead.

The audit scope included fiscal years 2012, 2013, and 2014 through December 31, 2013. Our audit concluded that the university generally had adequate internal controls and for items tested, generally complied with MnSCU policies and finance-related legal provisions. However, the report did contain seven internal control and compliance findings.

Considerations for System Leaders

Examples of benefits and opportunities available by moving to a single pcard provider:

- Improved internal controls and efficiencies if institutions use the vendor's Pcard computer system for automated workflow and increased monitoring activities.
- Shared services become a more viable option if institutions use common tools and business processes.
- Additional financial incentives in the form of increased rebates.

¹ The system no longer contracts with the Office of the Legislative Auditor to complete cyclical internal control and compliance audits on the non-financial statement audited colleges.

Information Technology Audits

Internal Auditing conducted audits of ImageNow and Desire2Learn. These audits focused primarily on internal controls that help to protect the confidentiality, integrity, and availability of the computer systems and data. The results of the audits are being used to enhance the overall information technology and security program of MnSCU.

External Audits

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

- **Systemwide, Revenue Fund, and College and University Financial Statements:** Audits of fiscal year 2013 financial statements marked the thirteenth year that MnSCU contracted for an external audit of its financial statements. The external audit firm of CliftonLarsonAllen provided an unqualified (clean) opinion on the systemwide financial statements in November 2013.

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

In addition, audited financial statements were developed for 13 of the largest institutions: the seven state universities and six two-year colleges. The financial statements for all 13 institutions received unqualified audit opinions from the CPA firms that the board appointed for the audits. Notably, all 13 institutions had no “material weaknesses” in internal controls noted. However, Metropolitan State University had a “significant deficiency” related to payroll errors that were a result of turnover in human resources personnel. These errors were not determined to be material to the financial statements. In addition, Rochester Community and Technical College also had a “significant deficiency” related to adjustments that were made to the statements.

- **ISEEK²:** MnSCU is the fiscal agent for ISEEK. A joint powers agreement requires an annual financial statement audit. CliftonLarsonAllen provided an unqualified (clean) opinion on the ISEEK financial statements in November 2013.
- **Federal Student Financial Aid:** Federal law requires an annual audit of major federal programs. The Office of the Legislative Auditor identifies major federal programs for the State of Minnesota, including MnSCU. It identified student federal financial aid as the only major federal program for MnSCU in fiscal year 2013. CliftonLarsonAllen completed the audit work

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

as part of its responsibilities as principal auditor for MnSCU. The audit concluded that MnSCU complied, in all material respects, with the compliance requirements over student financial aid. The report did include two minor compliance findings with questioned costs of only \$24.

The results of CliftonLarsonAllen's work were incorporated into the State of Minnesota's Single Audit report that was released in March 2014.

- **State Student Financial Aid:** The Minnesota Office of Higher Education conducts regular program reviews of state paid financial aid administered by MnSCU colleges and universities. The results of fiscal year 2014 audits are similar to past year results and contained minor technical findings that are typically the result of manual calculation errors or incomplete information for determining program eligibility.
- **Construction Auditing Pilot:** Internal Auditing contracted with the audit firm of Honkamp Krueger & Co., P.C. in January 2013 to perform contract compliance audits on two capital construction projects. The office received \$50,000 in system office initiative funds to complete a pilot project on construction auditing. We worked with Associate Vice Chancellor Brian Yolitz and his staff to select two construction projects to include in the pilot; Minneapolis Community and Technical College (MCTC) on the workforce program renovation and Hennepin Technical College (HTC) on the Learning Resources Center & Student Service Center renovation. Honkamp Krueger completed their work and reported the results at the June 2014 Board of Trustees meeting. As of September 2014 MCTC had recovered about \$19,000 and HTC was working to recover nearly \$33,000 in overpayments that were identified during the audit. Honkamp Krueger also offered several best practice suggestions, including ways to strengthen contract language to minimize future contract disputes and unallowable charges. We plan to analyze the results of the pilot project and report the results to the Audit Committee in fiscal year 2015.
- **General Obligation Bond Expenditures:** The Office of the Legislative Auditor released an audit report in March 2014. The report was directed to the Department of Management and Budget (MMB) but did include audit work at MnSCU colleges and universities that had projects authorized by the 2008 and 2010 bonding bills. Overall, the report concluded that entities that were audited generally had adequate internal controls to ensure that they used general obligation bond proceeds in compliance with applicable finance-related legal requirements. However, there were four findings that did mention MnSCU colleges and universities.

Revised Financial Audit Plan

In January 2014 the Board of Trustees adopted a revised financial audit plan for the system. The revisions to the plan were primarily based on substantial improvement in financial risk management since fiscal year 2000 when the current plan had been set in place. The board endorsed the following recommendations in the revised plan:

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.

Financial 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 Audit 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 financial statement 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.

Follow-up on Prior Audit Findings

The Board of Trustees and Chancellor expect timely resolution of audit findings. Internal Auditing maintains a database for tracking audit findings and monitors the status of both internal and external audit findings through resolution. Presidents are provided a mid-year and end-of-year follow-up report. Colleges and universities continued to make significant progress on resolving outstanding audit findings during fiscal year 2014. As of June 30, 2014, there were 61 unresolved audit findings, all but two of which were in satisfactory progress³. Table 1 summarizes fiscal year 2014 activity.

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

**Table 1: College and University Audit Finding Activity Summary
As of June 30, 2014**

	As of June 30, 2014	Previous Year Balances
Unresolved as of July 1, 2013	165	54
Additions – Fiscal Year 2014	129	367
Resolved – Fiscal Year 2014	233	(256)
Unresolved as of June 30, 2014	61	165

Status of Unresolved Findings

Satisfactory Progress	59	165
Unsatisfactory Progress	2	0

II. Fraud Inquiry and Investigation Support

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

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

- **Theft of equipment:** includes the theft of laptops, iPads, iPhones, and other information technology equipment. In most cases, colleges and universities report these incidents to local law enforcement.
- **Financial aid fraud:** two year colleges, primarily in the metro area, continue to deal with student financial aid fraud cases. Internal Auditing works closely with the Inspector General of the U.S. Department of Education on these incidents.
- **Bank account incidents:** these types of incidents commonly include fraudulent checks being drawn on an account.

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

III. Advisory Services

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

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

- **Professional advice** - Internal Auditing makes itself available to answer questions on various topics. Common questions pertained to compliance with board policies, system procedures, and best practices.
- **Task forces and other committees** - Internal Auditing representatives also sit on various system task forces and committees, including: IT Risk Management Committee, IT Guidelines Committee, Finance User Group, and Financial Aid Directors.
- **Campus Services Cooperative** – Internal Auditing was actively engaged in activities that took place during the fiscal year.

IV. Planning

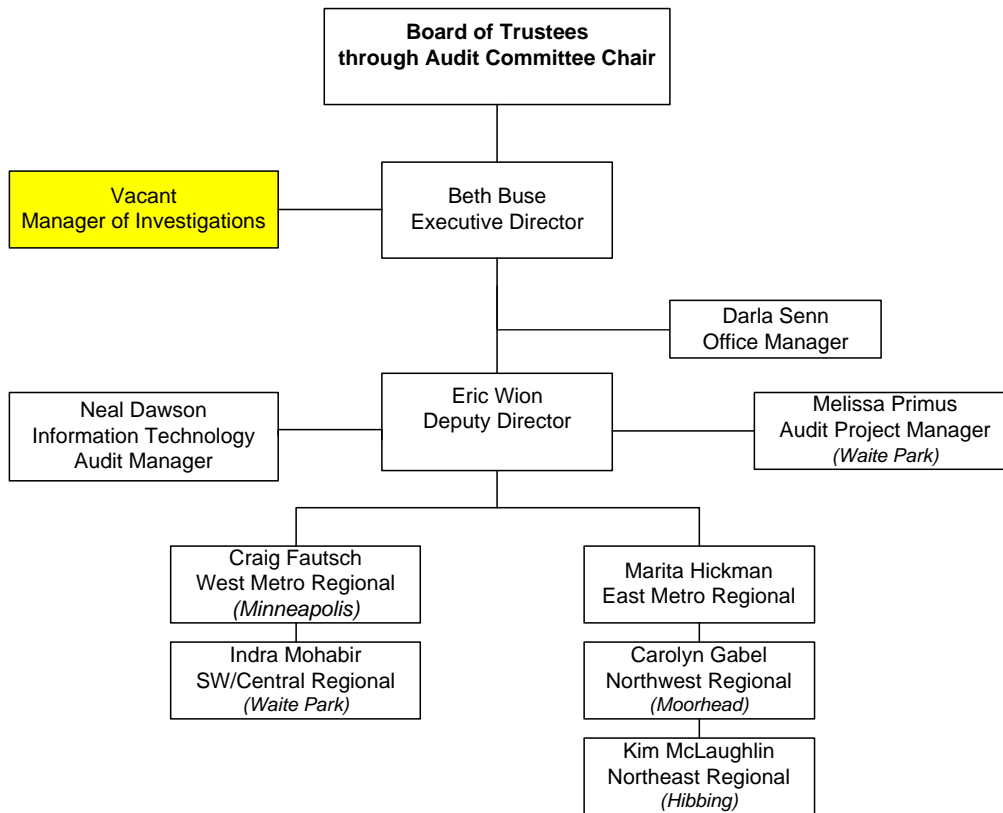
Internal Auditing completed an audit risk assessment that included strategic and operational risks during fiscal year 2014. While the risk assessment took into account risks across the organization in all functional areas, we completed a more intensive focus on financial and information technology risks. The results of the risk assessments were discussed with the Audit Committee in May. In addition, the results were taken into consideration in building the audit plan for fiscal year 2015.

V. Staffing

Figure 1 contains the organization chart for the Office of Internal Auditing as of July 1, 2014. The chart notes employees that are not located in St. Paul. The regional audit coordinators serve multiple colleges or universities located in their regions. Currently, we are working with human resources to create a new manager of investigations position (highlighted in yellow below) to help manage the

increased volume of fraud investigations within the Office of Internal Auditing, allowing other staff to focus on board approved projects.

**Figure 1 – Organizational Chart
Office of Internal Auditing**



Employees are highly qualified and on average have 20 years of auditing experience. Employees hold the following professional certifications:

- Certified Public Accountants – 7 employees
- Certified Internal Auditors – 2 employees
- Certified Fraud Examiners – 2 employees
- Certified Information System Auditors – 4 employees
- Certified Information System Security Professional – 2 employees

Table 2 provides a summary of how staff resources were used during fiscal years 2013 and 2014.

**Table 2: Percentage of Internal Auditing Staff Hours
Fiscal Years 2013 and 2014**

Audit Services and Time Categories	Fiscal Year 2014	Fiscal Year 2013
Internal Control and Compliance Audits	19%	22%
Information Technology Audits	11%	6%
Support on Financial Statement Audits	5%	7%
Follow-up on Prior Audit Findings	7%	8%
Investigations and Special Reviews	21%	14%
General Planning	3%	2%
Professional Advice	4%	5%
Administrative	10%	20%
Employee Benefits (Holidays, Vacation, Sick Leave)	20%	16%

Note: Time excludes executive and deputy director's time

VI. The Future

In June 2014, the Board of Trustees approved an audit plan for fiscal year 2015 that takes into consideration the results of audit risk assessments and available audit resources. We will need to reassess priorities within the FY15 plan based on the protracted process to fill the investigation manager position and the extensive time it has taken to complete the special review at Metropolitan State University.

Audit plans and other information on Internal Auditing are available at the office website, www.internalauditing.mnscu.edu

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

Name: Audit Committee

Date: October 21, 2014

Title: Role and Responsibilities of the Audit Committee Members

Purpose (check one):

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

Brief Description:

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

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing

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

INFORMATION ITEM

ROLE AND RESPONSIBILITIES OF THE AUDIT COMMITTEE MEMBERS

1 BACKGROUND

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

9
10 Specific board policies that relate to the Audit Committee and the Office of Internal Auditing
11 that members should be aware of are:

- 12
13 • 1A.2 Board of Trustees, Part 5, subpart E
14 • 1A.4 System Administration Appointment of Administrators
15 • 1C.2 Fraudulent or Other Dishonest Acts
16 • 1D.1 Office of Internal Auditing

17
18 Board policies are located at (<http://www.mnscu.edu/board/policy/>)

19
20 In addition, this session is intended to help prepare members for the process of reviewing the
21 audited financial statements. In November 2014, the audit committee will review the audited
22 financial statements for the MnSCU system, its Revenue Fund, and four state universities. The
23 attached checklist is intended to facilitate the review of those financial statements.

24
25
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31 *Date Presented to the Board of Trustee: October 21, 2014*

Financial Statement Audits Checklist

Introduction

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

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

YES NO

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

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

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

YES NO

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

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

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

YES NO

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

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