

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

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**Audit Committee Members Present:** Trustees Duane Benson, Ann Anaya, Robert Hoffman, Erma Vizenor, and Philip Krinkie (by phone).

**Audit Committee Members Absent:** Trustee Michael Vekich.

**Others Present:** Presidents Pat Johns and Richard Davenport, Trustees Kelly Charpentier-Berg, John Cowles, and Meleah Otterson.

The Minnesota State Colleges and Universities Audit Committee held its meeting on November 18, 2014, 4<sup>th</sup> Floor McCormick Room, 30 East 7<sup>th</sup> Street in St. Paul. Vice Chair Benson called the meeting to order at 12:46 a.m.

**1. Minutes of October 21, 2014**

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

**2. Internal Audit Update – Fraud awareness week.**

Ms. Beth Buse, Executive Director of the Office of Internal Auditing, noted that Governor Dayton proclaimed this week Fraud Awareness and Prevention Week in coordination with International Fraud Awareness Week. She took the opportunity to remind trustees and all employees of their responsibilities under Board Policy 1C.2 Fraud and Dishonest Acts which requires the reporting of any known fraudulent or dishonest acts.

**3. Review and Approve Release of the 2014 Audited Financial Statements.**

Ms. Buse began by reminding committee members that there had been only one external auditor for the system in 2014. In prior years there had been three external auditing firms contracted to do financial statement audits at thirteen colleges and universities, but this year in addition to the systemwide audits, one firm did standalone audits for only four state universities. She 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 and Mr. Don Loberg, a principal who heads up the college and university practice nationally.

Mr. Koop reviewed the audit scope and coverage of the systemwide audit. The contract encompasses four independently audited universities, twenty-eight unaudited colleges and universities and the defined contribution retirements fund. 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 weaknesses to report.

Mr. Popenhagen explained the substantive testing approach of the system office and the twenty-eight unaudited colleges and universities. In addition, he stated that standalone audits were done for four state universities.

Mr. Popenhagen presented information on the financial statement audits that his firm conducted for Bemidji State University, Metropolitan State University, St. Cloud State University, and Winona State University. Some of the key points shared by Mr. Popenhagen were as follows:

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

Mr. Koop pointed out that this was the fifth 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. He did caution these good results were not an opinion or an assurance on internal controls, but from what they were seeing, it was very strong. Mr. Loberg further commended the results stating that a small percentage of their clients end up with no material weaknesses or significant deficiencies and added that the board should take pride in the work of the staff. Mr. Koop cautioned, however, that internal controls needed continual monitoring.

Mr. Popenhagen reviewed the new Governmental Accounting Standards Board [GASB] Standard Number 68 - Accounting and Financial Reporting for Pensions which will be applied June 30, 2015, and 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 standard was being rolled out on a staggered basis across different government entities. She noted that the standard concerns the recording of the portion of the unfunded liability that is ascribed to MnSCU for MSRS, TRA, and PERA for both current and retired members. She noted that Minnesota Management and Budget and the state pension programs would do the calculations, and then the system would likely have to do a restate of the opening balance in 2015. She cautioned that for MnSCU it would be a material restatement in the several hundred million dollar range. She added that this calculation would be happening all over the country and to all the higher education entities. It will be noncash, so there will not be a big budget cash demand, but it will materially alter the balance sheet and the income statement.

Trustee Hoffman clarified that this was an effort by the State of Minnesota to distribute the liability of all the unfunded pension plans. Ms. King agreed. Mr. Koop added that the state would be distributing the recognition of the unfunded pension plans but that nothing would change as to how funding of ongoing retirement planning was managed.

Trustee Cowles asked if there would be an impact on MnSCU's bond rating. Ms. King stated

that the rating agencies were going to have to examine that question on a nationwide basis. She added that if the rating agencies decide that it would be a liability that had to be scored, then it would only have a downward pressure on MnSCU's rating. Ms. King assured trustees that there would be a more extended conversation about this to the finance committee in the first or second quarter of 2015 as the national conversation settles down.

Mr. Loberg reviewed the three Levels of Financial Management as described by the Government Finance Officers Association's "Financial Management (FM) Tool." He emphasized that strong financial management was essential. Mr. Loberg stressed the need for strong reserve levels. He noted that healthy reserve levels can position colleges and universities to take advantage of opportunities in a timely way, and provide a bridge through lean times. He cautioned that there should be a priority to build reserve levels to ensure adaptability at the college and university level.

Finally Mr. Koop stated that the audit process went really well. 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 group for their communication and professionalism.

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 audit of the Itasca Community College Student Housing Funds, Itasca Hall and Wenger Hall (ICCSH). 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.

Vice Chancellor King expressed her appreciation to the financial reporting staff. She noted it was a highly matrix managed exercise led by Ms. Denise Kirkeby and Mr. Metody Popov. She stated that there was a terrific staff of accountants committed to the quality and the high standard of this work and she thanked them for their passionate work on this process. She thanked the team from CliftonLarsonAllen and the Office of Internal Auditing. And finally, Ms. King thanked all the staff at the colleges and universities, because the work was really a product of the work of campus staff. They hold themselves to a standard of high performance, and it shows in the results.

Ms. King stated that she would 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 stated that the net position had continued to increase by \$16 million, \$91 million, and \$121 million over the past three years. That has been largely the results of the state's investment in the capital program. She noted that enrollment levels continue to decline a couple of points a year which is having a negative effect for the system. The total operating

expenses increased by 2.3% while the total revenue declined by 1.6%. Ms. King stated that there was strong state and federal financial aid participation by students, and she noted that was a continuing concern because it increases the system's reliance on the federal financial aid program, and the students' reliance on the state and federal financial aid programs.

Ms. King assured trustees that there is strong campus management underway, and she added that colleges and universities were well into fiscal 2015 budget actions as well as modeling for fiscal 2016. She stated that while there were some concerns about the results in 2014, she thought there was some hope in that the campuses were working hard to reverse those trends for 2016.

Trustee Benson called for a motion to approve the release of the audited financial statements for 2014. *Trustee Anaya made the motion, Trustee Hoffman seconded. There was no dissent and the motion carried.*

**RECOMMENDED COMMITTEE ACTION:**

*The Audit Committee has reviewed the fiscal year 2014 audited financial statements and discussed them with representatives of management and the system external auditing firm. 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 2014 audited financial statements as submitted.*

The meeting adjourned at 1:35 p.m.