



**AUDIT COMMITTEE
NOVEMBER 17, 2015
12:30 P.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 16, 2015 (pages 1-5)**
- (2) Review/Approve Release of Audited Financial Statements (pages 6-7)**
- (3) Clery Act Internal Control and Compliance Audit (pages 8-10)
- (4) Dakota County Technical College Internal Control and Compliance Audit (pages 11-13)

Members

Robert Hoffman, Chair
Philip Krinkie, Vice Chair
Kelly Charpentier-Berg
Jay Cowles
Erma Vizenor

Bolded items indicate action required.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING MINUTES
June 16, 2015**

Audit Committee Members Present: Trustees Philip Krinkie, Duane Benson, Robert Hoffman, and Michael Vekich.

Audit Committee Members Absent: Trustee Ann Anaya and Erma Vizenor.

Others Present: Trustees Margaret Anderson Kelliher, Alexander Cirillo, John Cowles, Maleah Otterson, and Elise Ristau.

The Minnesota State Colleges and Universities Audit Committee held its meeting on June 16, 2015, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Chair Krinkie called the meeting to order at 10:32 a.m.

1. Minutes of May 20, 2015

The minutes of the May 20, 2015 Audit Committee were approved as published.

2. Proposed Amendment to Policy 1D.1 Office of Internal Auditing (Second Reading)

Ms. Beth Buse, Executive Director of the Office of Internal Auditing, began by stating that the proposed amendment to Policy 1D.1 would bring the office into compliance with the international standards for internal auditing. She added that there were also a number of smaller technical changes being proposed.

Trustee Krinkie called for a motion to approve the amendment to Policy 1D.1. Trustee Vekich made the motion, Trustee Hoffman seconded. There was no dissent and the motion carried.

RECOMMENDED COMMITTEE ACTION:

The Audit 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 recommended changes to Policy 1D.1 Office of Internal Auditing as submitted.

3. Results of Audit Risk Assessment.

Ms. Buse began by stating that she planned to walk through the audit risk assessment and the annual audit plan at the same time. She began with an internal audit snapshot that highlighted a number of the changes that had occurred in the five years since she took her position as Executive Director of the Office of Internal Auditing.

Ms. Buse continued with an overview of the audit risk assessment. She stated that internal audit standards and board policy required that an audit plan be developed based on a documented risk assessment and be brought to the audit committee annually for approval. Ms. Buse reviewed the methodology which included reviewing thought leadership on risks across sectors and specifically related to higher education, reviewing the Enterprise Risk Management study session, and discussions with stakeholders.

Ms. Buse recapped the annual board study session on the top strategic and operational risks. She noted that the last study session was in September of 2014, and that in conversations with board members there was a desire for additional board oversight. Ms. Buse noted that there was work underway by presidents and cabinet members for the September 2015 discussion with board on top risks and mitigation strategies.

Ms. Buse talked about operational risk management and reminded members of the three lines of defense model.

Trustee Krinkie asked about the costs to the system for a breach. Ms. Buse stated that according to a thought leader article, for the education industry the average cost for a breach per record is \$225. She noted that it can quickly become significant. Chancellor Steven Rosenstone provided context by stating that there are institutions with 100,000 records. He added that it would not be an insignificant financial risk were a breach to occur.

Ms. Buse reviewed some thought leader themes related to risk. She noted that in the higher education sector, there were several consulting firms that put out publications on the trends in higher education. She also spoke with CliftonLarsonAllen for their perspective because they do work within the higher education sector. She noted that the three common trends across the higher education sector were changing student demographics, a sustainable financial model and campus sexual assault.

Ms. Buse reviewed some of the themes that came out of her conversations with stakeholders. First she noted that there was a passion for the organization and the work we do, and the impact to students in the State of Minnesota. People also consistently agreed that there was the need for change, but there was also the worry about how to do change at any scale that would really impact the system as a whole. Cyber security and enrollment trends were common concerns. Resources constraints on staff was a real concern. There has been turnover of staff and increases in regulatory requirements at a time when resources are very constrained on campuses. She noted that there was talk about the challenge to maintain basic functions. She also noted that there was a concern around audit projects that may add demands or additional work for staff on campuses, and she noted that it was something they would need to be mindful of as projects are planned for the upcoming year.

Ms. Buse reviewed some specific operational topics that came out of the conversations with stakeholders. Topics included developmental education and PSEO and concurrent enrollment. Regulatory compliance areas included HIPPA, gainful employment, Title IX and payment card industry (PCI). Facilities related areas included succession planning with staffing and environmental health and safety. Finance related areas included bookstore

operations, the allocation model and GASB 68 implementation (pensions) and impact to financial metrics

Ms. Laura King, Chief Financial Officer, reminded members that the finance committee would be hearing more about the GASB 68 implementation in October. She added that the chief financial officers are very mindful of the new GASB requirements that are coming.

Trustee Hoffman asked about the allocation formula. Ms. King stated that the allocation formula would be part of the implementation team recommendations. She stated that they would bring a set of design principles for the new allocation formula model in the fall that could prompt a discussion about the principles and goals for the new design. Ms. King stated that they were scheduled to bring the new formula to the board in the fall of next year.

Ms. Buse discussed other themes that came up in conversations including the Campus Service Cooperative, customized training and health services.

Ms. Buse gave a brief background on financial risk management in the organization. She explained that there had been a recommendation to increase the number of financial internal control and compliance audits and that stakeholders desired more frequent audits. Trustee Krinkie asked how long it had been since the system had any significant findings with regard to the financial audits. Ms. King stated that it had been years since there had been a finding from the external auditors that raised a flag on the accuracy and reliability of the system's financial statements. She added that was not true at the individual college and university level. Trustee Krinkie reminded members that when they considered the breadth of the organization the results have been outstanding. He cautioned that there was always the risk of individual compliance issues with an organization of this size and complexity, but he praised the colleges and universities for the outstanding job they had done.

Trustee Cowles asked how often all colleges and universities were audited over a ten year cycle. Ms. Buse stated that a specific rotation had not been determined yet but that her office planned to conduct four or five institution internal control and compliance audits each year. She added that there was a recommendation to determine how the system could potentially get even more coverage. Trustee Cowles asked if particular attention was paid to fraud at the campus level. Ms. Buse stated that auditing standards require auditors to take fraud into consideration on all engagements. She added that one of the recommendations in the audit plan would be to look at bookstore operations because it was an area that is prone to fraud because of the cash that is handled with point of sale operations.

Ms. Buse continued by reviewing the assessment tool used to help determine which campuses to focus on this fiscal year. She noted that five institutions have not had an internal control and compliance audit in over ten years. She noted that other metrics looked at the number of institutions with a negative net operating and decreasing CFI. She stated that user level security and changes in key personnel were also areas that needed to be reviewed.

Ms. Buse talked about functional risk areas which would look across the system in particular areas, taking into account materiality, transaction volume and complexity, susceptibility to

fraud, compliance requirements, and past audit history.

Ms. Buse talked about the broad categories of information technology risk – confidentiality, integrity, and availability.

Ms. Buse talked about the fiscal 2016 audit plan. She explained that there were some delays in finalizing the work of the fiscal 2015 audit plan due to resources that were pulled to conduct the special review at Metropolitan State University as well as some vacancies in staff positions this year. She explained that fieldwork completed but reports not issued for three audits - Clery Act compliance, Dakota County Technical College, and IT security assessments at four sites. She also reviewed the three projects that had yet to be completed – internal control and compliance audits of Minnesota State University, Mankato and Itasca Community College, and an audit of International and Study Abroad programs. Finally she recommended delaying the audit of system office enterprise systems network security until fiscal 2017.

Ms. Buse stated that her recommendation for the fiscal 2016 plan would be to complete the work of the 2015 audit plan. She noted that time would be help open in the plan to allow for flexibility given all of the activity going on in the organization.

Ms. Buse reviewed the recommended projects for fiscal 2016. Time would be dedicated to ongoing activities such as monitoring progress on outstanding audit findings, fraud inquiry and investigation support services. The plan recommended financial internal control and compliance audits at Hennepin Technical College and Minnesota State Community & Technical College. The plan also recommended an operational audit of bookstore operations. Ms. Buse talked about wanting to explore the use of targeted mini audits which might be a mechanism to report out on topics that come up without doing a complete audit. The plan recommended information technology audits in the areas of third party/cloud computing services, payment system security controls and evaluating results of contracted for security assessments.

Ms. Buse reviewed the advisory services and other internal auditing activities for the next year. She reviewed the external audit activity and noted that in fiscal 2016 there would be NCAA agreed upon procedures for Division II institutions audit work at six universities. Ms. Buse stated that the Office of the Legislative Auditor had no activity planned for with the Minnesota State Colleges and Universities in the next year.

Ms. Buse reviewed some administrative items with the committee. Finally, she reviewed recommendations for increasing internal control and compliance audit coverage.

Trustee Krinkie asked the presidential liaisons to the audit committee for their suggestions and comments. President Richard Davenport, Minnesota State University, Mankato, stated that one of the biggest concerns revolved around the serious budget concerns that they have faced. He stated that budget reductions have placed a heavier work load on staff. He stated that one of the reasons that presidents value and look forward to more audits is because of the risks that can occur when you ask fewer individuals to do more work. President Davenport also noted that he looked forward to the discussion on the athletic audits and he noted that to remain in the NCAA as a Division II or Division I institution, there were guidelines that had to be followed.

President Pat Johns, Lake Superior College, stated that he was looking forward to the Leadership Council discussion on the risk management topics. He noted that we live in a changing environment and risks are very different today than they were five or ten years ago. He added that he thought the audit plan for next year was a full plate for the audit staff and stated that he appreciated their work. Finally he stated that it helps the institutions to have this type of oversight.

Trustee Hoffman asked if there was a formula for determining when nonfinancial audits were necessary. Ms. Buse explained that it was usually a judgement call but that it was based on the topics that come out of the discussion with stakeholders and discussions like those around enterprise risk management or Charting the Future.

Trustee Krinkie reminded members that the value of internal audit went beyond just monitoring the financials, but also to providing an understanding of operational functions on institutions. He stated that a reputational incident could, as an example, have long term effect on enrollments. Trustee Krinkie further stated that an audit plan would need to be able to shift as incidences arise so that the staff could respond where necessary.

Trustee Benson noted that the committee has been having discussions that would never have occurred a few years back. He noted that there is a lot of terminology and he wondered if everyone had a common understanding of what it all meant. Trustee Benson asked if a glossary could be developed to help committee members get to the same starting point on risk management. Ms. Buse agreed that they could put together a glossary of common terms for the committee.

Trustee Krinkie called for a motion to the Office of Internal Auditing annual audit plan for fiscal year 2016. Trustee Vekich made the motion, and Trustee Hoffman seconded. There was no dissent and the motion carried.

RECOMMENDED COMMITTEE ACTION

On June 16, 2015, the Audit Committee reviewed the Fiscal Year 2016 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 2016.

The meeting adjourned at 11:40 a.m.

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

Agenda Item Summary Sheet

Audit Committee

Date: November 17, 2015

Title: Review and Approve Release of FY2015 and FY2014 Audited Financial Statements

Purpose (check one):

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

Brief Description:

The System, its revenue fund, the four state universities, and one student housing fund had financial statement audits conducted by CliftonLarsonAllen. The opinion letters provide the Board and other users of the audits with reasonable assurance that the information is materially accurate and reliable. Auditing standards also require the audit firm to convey certain required communications, including any significant deficiencies or material weaknesses in internal controls, to the Audit Committee.

Scheduled Presenter(s):

Eric Wion, Deputy Director, Office of Internal Auditing
Laura King, Vice Chancellor - Chief Financial Officer
Don Loberg, CliftonLarsonAllen, LLP
Chris Knopik, CliftonLarsonAllen, LLP
Brenda Scherer, CliftonLarsonAllen, LLP

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

ACTION ITEM
REVIEW AND APPROVE RELEASE OF FY2015 AND FY2014 AUDITED FINANCIAL STATEMENTS

Board Policy 1A.2, part 5, subpart E requires the audit committee to “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.”

The audited financial statements for fiscal year 2015 activity will be presented at this meeting as follows:

Financial Statements audited by CliftonLarsonAllen, LLP –

- Systemwide
- Revenue Fund

- Bemidji State University
- Metropolitan State University
- St. Cloud State University
- Winona State University
- Itasca Community College Student Housing Funds, Itasca Hall and Wenger Hall (ICCSH)

AUDIT RESULTS

Copies of the audited financial statements were provided to members of the audit committee for review prior to the meeting on November 17, 2015. Public copies of reports will be available on the financial Reporting website.

RECOMMENDED COMMITTEE ACTION:

The audit committee has reviewed the fiscal year 2015 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 2015 audited financial statements as submitted.

Date Presented to the Board of Trustees: November 18, 2015

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

Agenda Item Summary Sheet

Name: Audit Committee

Date: November 17, 2015

Title: Clery Act Internal Control and Compliance Audit

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:

As part of the Fiscal Year 2015 Internal Auditing Annual Audit Plan, the Office of Internal Auditing conducted a Clery Act internal control and compliance audit.

The results of the audit will be presented and discussed at the November 17, 2015 committee meeting.

Scheduled Presenter(s):

Eric Wion, Deputy Director, Office of Internal Auditing
Melissa Primus, Project Manager, Office of Internal Auditing

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

BOARD INFORMATION
CLERY ACT INTERNAL CONTROL AND COMPLIANCE AUDIT

1 **Background:**
2 The Clery Act Internal Control and Compliance audit was approved by the audit committee as
3 part of the Fiscal Year 2015 Internal Auditing Annual Audit Plan, and was completed in fiscal
4 year 2016.
5
6 The results of the Clery Act Internal Control and Compliance audit were released on September
7 8, 2015. Audit committee members received a copy of the audit at that time. Additional copies
8 of the audit may be obtained from the Office of Internal Auditing by request.
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10 Attached is the Clery Act Internal Control and Compliance audit executive summary.

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Date Presented to the Board of Trustees: November 18, 2015



Minnesota
STATE COLLEGES
& UNIVERSITIES

Clery Act Internal Control and Compliance Audit

Office of Internal Auditing
Reference Number 2015-08

Public Release Date – September 8, 2015

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

In June 2014, the Board approved the system audit of the Clery Act. This report presents the results of the audit. It contains six findings and recommendations to assist colleges, universities, and the system office in improving processes, controls, and compliance.

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

The results of the audit were discussed with the system office and college and university staff for the ten institutions included in our review on July 30, 2015.

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

Beth Buse, CPA, CIA, CISA
Executive Director

Executive Summary

Background:

- Clery Act requires colleges and universities to disclose information about crime on and around their campuses.
- Colleges and universities must comply with Clery requirements to receive federal financial aid.
- Compliance with the Clery requirements can be complex.
- Each institution is responsible for developing processes and procedures to comply with the requirements.

Conclusion:

Colleges and universities were aware of Clery requirements, fully understood the importance of complying with the requirements, and had procedures in place to collect and report crime data. We did, however, identify some internal control deficiencies and examples of non-compliance.

Findings

- Six institutions did not properly identify Clery geography for campus and non-campus sites and 10 institutions may not have obtained crime data from some law enforcement agencies.
- Some institutions did not provide training to new campus security authorities (CSAs) or refresher training to remind CSAs of their responsibilities and one institution did not properly identify all CSAs.
- Five institutions did not properly maintain and allow access to crime or fire logs.
- Four institutions did not address new requirements related to Violence Against Women Reauthorization Act (VAWA) legislation.
- Nine annual security reports were missing required policy statements or other required information.
- Seven institutions did not provide sufficient notification about the availability of the report to students and employees.

Long Term Consideration for System Leaders

- College, university, and system leaders should consider how the Clery support team can help institutions address audit findings.

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

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

Agenda Item Summary Sheet

Name: Audit Committee

Date: November 17, 2015

Title: Dakota County Technical College Internal Control and Compliance Audit

Purpose (check one):

Proposed
New Policy or
Amendment to
Existing Policy

Approvals
Required by
Policy

Other
Approvals

Monitoring /
Compliance

Information

Brief Description:

As part of the Fiscal Year 2015 Internal Auditing Annual Audit Plan, the Office of Internal Auditing conducted an internal control and compliance audit of Dakota County Technical College.

The results of the audit will be presented and discussed at the November 17, 2015 committee meeting.

Scheduled Presenter(s):

Eric Wion, Deputy Director, Office of Internal Auditing
Marita Hickman, Audit Coordinator

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

BOARD INFORMATION
DAKOTA COUNTY TECHNICAL COLLEGE INTERNAL CONTROL AND COMPLIANCE AUDIT

1 **Background:**
2 The Dakota County Technical College Internal Control and Compliance audit was approved by
3 the audit committee as part of the Fiscal Year 2015 Internal Auditing Annual Audit Plan, and
4 was completed in fiscal year 2016.
5
6 The results of the Dakota County Technical College Internal Control and Compliance audit were
7 released on September 10, 2015. Audit committee members received a copy of the audit at that
8 time. Additional copies of the audit may be obtained from the Office of Internal Auditing by
9 request.
10
11 Attached is the Dakota County Technical College Internal Control and Compliance audit
12 executive summary.

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Date Presented to the Board of Trustees: November 18, 2015



Minnesota
STATE COLLEGES
& UNIVERSITIES

Dakota County Technical College Internal Control and Compliance Audit

Office of Internal Auditing
Reference Number 2015-11

Public Release Date – September 10, 2015

Members of the MnSCU Board of Trustees
Chancellor Steven J. Rosenstone
President Tim Wynes

This report presents the results of our selected scope financial internal control and compliance audit of Dakota County Technical College for fiscal years 2013, 2014, and 2015 through April 14, 2015. It contains seven findings and related recommendations to assist college management in improving business processes, controls, and accountability.

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

The results of the audit were discussed with college and system office leadership on July 31, 2015.

We appreciate the excellent cooperation and assistance that we received from college employees.

Beth Buse, CPA, CIA, CISA
Executive Director

Audit Scope

We reviewed internal controls and compliance over the following activities for fiscal years 2013, 2014, and 2015 through April 14, 2015.

- Receipts: tuition and fees, and bookstore
- Employee business expense reimbursements
- Procurement, disbursement, and equipment inventory
- Personnel and payroll expenses
- Key financial reconciliations

Conclusion

Except for bookstore operations, the college generally had adequate internal controls and complied with policies, procedures, and finance-related legal requirements. The audit report contains seven findings.

Findings

1. The bookstore had significant internal control deficiencies and the college lacked adequate oversight of its bookstore operations. A fraud was discovered during the audit that resulted in the theft of some bookstore receipts.
2. The college had payroll-related errors including some that affected some employee's pay.
3. The college had errors that resulted in some inaccurate employee leave balances.
4. The college did not adequately manage its equipment inventory records.
5. The college used backdated drops rather than waiver transactions to waive tuition and fees for some students.
6. The college did not routinely perform and document controls to mitigate the risks with several employees having incompatible ISRS access. In addition, system access was not always removed timely when it was no longer needed.
7. The business office's cashiering area lacked some physical controls and customized training receipts collected at the college's Eagan location were not sent to the business office and deposited timely.

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The audit was performed by Marita Hickman, Craig Fautsch and Indra Mohabir