

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.