

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE
MEETING MINUTES
March 19, 2008**

Audit Committee Members Present: Trustees Scott Thiss, Chair; Dan McElroy, and James Van Houten.

Audit Committee Members Absent: Trustee Ann Curme Shaw.

Other Board Members Present: Trustees Duane Benson, Cheryl Dickson, David Paskach, and Christine Rice.

Leadership Council Committee Members Present: Chancellor James McCormick, President Cheryl Frank, John Asmussen, Gail Olson, Laura King, Linda Baer and Ken Niemi.

The Minnesota State Colleges and Universities audit committee held its meeting on March 19, 2008, at Wells Fargo Place, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair Thiss called the meeting to order at 8:05 a.m.

Approval of the Audit Committee Meeting Minutes

Chair Thiss called for a motion to approve the December 17, 2007 Audit Committee Meeting minutes and the December 17, 2008 Joint Audit Committee and Advancement Committee Meeting minutes. The Chair moved to approve the minutes, there was no dissent and the motion carried.

1. Select External Auditors for Institutional Financial Statement Audits (*Action Item*)

Mr. John Asmussen, Executive Director of the Office of Internal Auditing, reported that two firms were being recommended to conduct the audits for five state universities and one college whose audit contracts had expired. Mr. Asmussen reminded the committee that board policy allowed an audit firm to the serve the same institution for a maximum of six consecutive years. He further stated that in this round of audits, four institutions had reached the end of their six year maximum time period which would require an automatic rotation of auditors, while the other two institutions were eligible to have the same audit firm reappointed.

A Request for Proposals (RFP) was issued in January and five firms submitted proposals which were reviewed in late February. The recommendation to the committee was to appoint three of those audits to the firm of Kern, DeWenter, Viere and Company and the other three to the firm of Virchow Krause and Company. Mr. Asmussen stated that both audit firms had extensive experience with the system and he was confident in the quality of their work.

Mr. Asmussen informed the committee that the quotes from the firms were exceptional. Based on new audit standards which require organizations to document internal controls, the expectation was that audit fees would increase an average of 20%. Mr. Asmussen credited Vice Chancellor Laura King and her staff for anticipating that potential impact and initiating an aggressive process to show leadership and get internal controls documented by the campuses. Mr. Asmussen informed the committee that the audit fees being recommended represented a 5% decrease in fees from the prior year. He stated that the decrease was reflective of the confidence the firms had in the system operations.

Finally, Mr. Asmussen stated that there was a proposal submitted by LarsonAllen and Company, but that it was not as favorably priced as the other two firms. He stated that they had one year left of a three year contract to audit Century College, but that it may not be economical for them to do just one audit. The Century College contract allows the system to negotiate a mutually agreed upon fee with the firm by April 30, 2008. If an agreement could not be met by then, Mr. Asmussen stated that he would return in May with a recommendation on a replacement firm.

Trustee McElroy asked about the cost of expenses associated with these audits. Mr. Asmussen stated that expenses were usually capped at about \$3,000 per audit. Trustee McElroy stated that was a reasonable amount.

Trustee Van Houten disclosed that he used the firm of Virchow Krause and Company for his personal CPA firm, and asked if he should excuse himself from voting on the motion. General Council Gail Olson stated that there was no conflict of interest as Trustee Van Houten was paying the firm for a service and was not a beneficiary in the firm.

Trustee Van Houten made the following motion and it was seconded by Trustee McElroy:

The Audit Committee recommends that the Board of Trustees approve the following motion:

RECOMMENDED MOTION:

The Board of Trustees approves the appointment of Kern, DeWenter, Viere, Ltd., and Virchow, Krause and Company, LLP to serve as external auditors for six colleges and universities. The firm of Kern, DeWenter, Viere, Ltd. will serve as external auditor for Minnesota State University Moorhead, Minnesota State University, Mankato, and Winona State University. The firm of Virchow, Krause and Company, LLP will serve as external auditor for St. Cloud State University, Bemidji State University, and Minnesota State Community & Technical College. The scope of these audit services shall include an annual audit of the general financial statements of the above mentioned colleges and universities. The term of these appointments begins upon execution of contracts and shall continue to fulfill external auditing needs for the three fiscal years from July 1, 2008 to June 30, 2010.

The Board of Trustees authorizes the Executive Director of Internal Auditing and the Vice Chancellor/Chief Financial Officer to negotiate contracts with Kern DeWenter, Viere, Ltd., consistent with the terms contained in its proposal dated February 14, 2008, and Virchow, Krause and Company, LLP, consistent with the terms contained in its proposal dated February 28, 2008.

2. Review Results of Annual Student Financial Aid Audit (Information Item)

Mr. John Asmussen, introduced Ms. Beth Buse, Deputy Director of Internal Auditing, Mr. Chris Halling, System Director for Student Financial Aid, and Mr. Steve Wischmann, Principal Auditor with Kern DeWenter, Viere, Ltd.

Ms. Buse explained that federal law required an annual audit of the federal financial aid programs. Kern, DeWenter, Viere had conducted this audit as part of its role as the principal auditor for the system. The results of the audit and the findings and recommendations were incorporated into the State of Minnesota's Single Audit Report which will be issued to the federal government by the Minnesota Department of Finance by the end of March, 2008.

Mr. Buse provided background and context for the report. She stated that there had been a 3% increase in the number of students that received grants, but that actually amount they received has stayed relatively stable. She further noted that in 2007 two new federal programs had been added which had added a small increase to the total amount of grants dispersed to students.

Ms. Buse stated that questioned costs had come down dramatically over the last several years, from \$5.6 million to \$10,000. She indicated that the change had to do with the improvement over the administration of student financial aid, satisfactory academic progress and return to Title IV.

Mr. Wischmann presented the findings of the report. Mr. Wischmann stated that his firm had issued a clean or unqualified opinion on the compliance aspect of the student financial aid, he added that there were no material weaknesses or significant deficiencies. He stated that the findings in the report were procedural in nature and had not risen to the level of being significant.

Finally, Mr. Wischmann noted that determination letters had been received for St. Cloud State University and Metropolitan State University which closed out those program reviews. He added that the final determination for Minneapolis Community and Technical College had not been issued. Chancellor McCormick pointed out that Minneapolis Community and Technical College had provided the appropriate information but that the U.S. Department of Education had not responded. Ms. Buse added that the college had been waiting for the final determination from the U.S. Department of Education since November of 2006.

Trustee Van Houten asked if this was an area where centralizing the work may relieve smaller campuses of administrative problems without interfering with the autonomy of their educational mission. Mr. Asmussen stated that Mr. Halling and

his staff had taken on added responsibility in monitoring the colleges and he added that their work had helped reduce the number of findings from past reports. Mr. Halling reported that the U.S. Department of Education conducted training in the areas of Satisfactory Academic Progress and Return to Title IV Funds, and that they were the most common findings across the country. He added that Minnesota was managing these programs better than many other states. Ms. King stated that the work on the Technology Enterprise plan and the Security Identity Management project was important to making progress in using technology to streamline processing. Ms. Cheryl Frank, President of Inver Hills Community College, agreed that there were ways that technology could continue to streamline processes that assist students through the financial aid process. But she added that the work of following up on student withdrawals and failures had to happen on the campus. She added that that work was being done and it was reflected in the improvements highlighted in the report.

Chancellor McCormick stated that this report showed dramatic improvement over past years. He further stated it was important to acknowledge and celebrate the higher level of quality that had been achieved and to continue to maintain those standards in the future. Trustee Thiss congratulated the staff on their hard work and the good report.

3. Update on Degree Audit Reporting System/Course Applicability System (DARS/CAS) Implementation (Information Item)

Mr. John Asmussen began by reminding the committee that there had been significant problems in gaining full implementation of the Degree Audit Reporting System (DARS) and the Course Applicability System (CAS) in the past. He stated that under the committee's direction, there had been aggressive monitoring of the implementation process, with a target date of June 30, 2008 for full implementation by all colleges and universities.

Ms. Buse gave a brief background on DARS and CAS. She reminded the committee that in November of 2007 there had been a motion approved by the Board which required colleges and universities to have DARS and CAS implemented by the end of the calendar year or to have an implementation plan approved by both the Senior Vice Chancellor and the Chair of the audit committee. She reported that of the twenty-six institutions that had not been fully implemented, fourteen institutions planned to be complete by the end of the last calendar year and the remaining twelve institutions submitted plans to be fully implemented by the end of the fiscal year. The Senior Vice Chancellor and the Chair approved all twelve plans in February 2008.

Ms. Buse stated that the campuses had worked hard to implement DARS and CAS. She stated that thirteen of the fourteen colleges and universities met the December 31, 2007 deadline. She stated that at Minnesota State University, Moorhead had concentrated on the course equivalencies for their feeder institutions rather than the system institutions. Minnesota State University, Moorhead had finished entering those course equivalencies by December 31, 2007 and they would finish

implementing the system institution course equivalencies by June 30, 2008. Ms. Buse further stated that three additional institutions had fully implemented as of February 2008, and that all other institutions would be implanted by June 30, 2008.

Ms. Buse stated that after June 30, 2008, all new students, all students newly accepted to a major, and some currently enrolled students, depending on when the institution implemented, would have reliable degree audits. She explained that institutions that had only recently implemented the DARS and CAS systems, could have a backlog of transfer information, which would make degree audits unreliable for students who had been in the in system for some time. Ms. Buse further stated that there was a cost benefit question at some institutions in deciding if they would go back and enter that backlog of information. Senior Vice Chancellor Linda Baer explained that at Metropolitan State University, as an example, ninety-five percent of their students were transfer students and those students often took years to complete their degrees, so there was a large backlog of information that would need to be entered.

Ms. Buse went on to explain some of the strategies for dealing with the backlog of student records that would need to be coded. She pointed out that four-year institutions required students to meet with advisors a year in advance of graduation. President Frank added that advisors also meet with students during the semester prior to graduation to check their requirements. Ms. Buse added that it wouldn't make sense to invest the resources to enter the information for those degree audits when those students had already developed graduation plans with their advisors. President Frank stated that she would want presidents to be involved in the strategy discussions for dealing with backlogs.

Chair Thiss asked if there would be a point in the future when the committee could be assured that the colleges and universities were all fully implemented. Chancellor McCormick pointed out that two years ago there were institutions who were not working toward implementing DARS and CAS at all. He state that was no longer the case and full implementation would happen. Ms. Baer pointed out that a degree audit was just the automated technology degree audit, and she added that the institutions were still working with students individually to ensure their graduation requirements were being met.

Chair This stated that he was comfortable with the implementation strategies that had been presented, but he added that the audit committee would like to know that the colleges and universities had fully implemented the DARS and CAS systems.

Trustee McElroy asked if student transcripts would come from the same system and if there would be some transition from the prior system to the new system. Ms. Buse stated that the e-transcript project would help facilitate the process of getting transfer courses electronically from one institution to another. She added that when the project was completed, it could save the colleges and universities one position a year because of the amount of coding that needed to be done with the number of students that transferred courses each year. Ms. Buse further explained some of the technology challenges that had been encountered in implementing DARS and CAS.

Mr. Ken Niemi, Vice Chancellor for Information Systems and Chief Information Officer, briefly explained that the information technology group would be building the e-transcript project internally in order to ensure that it would fully integrate with ISRS system. He continued by explaining some of the difficulties that had been encountered in filling the information technology positions.

Mr. Asmussen informed the committee that he would work with Senior Vice Chancellor Baer and the Leadership Council to develop a timeline for full implementation and present that as part of the Audit Plan for fiscal year 2009 which would come before the committee in July. Chair Thiss agreed and asked for a final update to the audit committee a year from now. He further stated that he was comfortable with the progress that was being made at the colleges and universities.

4. Preliminary Internal Audit Report on the Minnesota State Colleges and Universities Foundation (Information Item)

Mr. John Asmussen presented the preliminary report on the Minnesota State Colleges and Universities Foundation. He stated that the contract with the Minnesota State Colleges and Universities Foundation would expire on June 30, 2008, and he further stated that one object of the report would be to provide information regarding the renewal of the contract. Mr. Asmussen stated that a second objective of the report was to ensure compliance with board policies and procedures.

Mr. Asmussen explained that the preliminary report contained a cost benefit analysis of the Minnesota State Colleges and Universities foundation. He stated that if the audit committee agreed with the methodology in the preliminary report, the final project would be a full cost benefit analysis of all the campus foundations. Mr. Asmussen proposed two methodologies. The first one was the public cost index, which stated that for every dollar of public investment, there should be at least a dollar back in benefits. The second methodology was the fund-raising cost index, which indicates the cost to raise a dollar of contributions. He recommended that both indexes be calculated as part of the project.

Mr. Asmussen stated that to determine if the system had appropriately invested resources in the foundations, there would need to be a clear understanding of the actual value of the system's investment; and also, a clear understanding of what a full return for that valued investment would be. He stated that General Council Olson and Executive Director McGlinch had been working to improve the contracting process which would provide more of that assurance within the contracts and would more define the cost and the benefits.

Mr. Asmussen presented a brief history on the Minnesota State Colleges and Universities foundation. He stated that in 2003, the Chancellor commissioned a study of the foundations at the system level; the Leadership Council debated whether the system should invest in a foundation at the system level or have more of a passive investment vehicle and let the fund raising and foundation activity

occur at the campuses. The decision was made, based on a report by Jim Daniels, to try an aggressive strategy of managing the system level foundation.

Mr. Asmussen reviewed a side-by-side analysis of the two cost perspectives for the Minnesota State Colleges and Universities foundation. He pointed out that in 2006 the system had received a couple of modestly sized private gifts and grants which had created a positive return. He stated that those same kinds of gifts and grants were not forthcoming in 2007, which made it appear as though there was a negative return on the cost index.

Mr. Asmussen stated that the public cost index calculations included overhead costs and indirect costs associated with supporting the foundation activity. He added that the direct benefits back to the public side of the organization included scholarships received by students, programs, and advancement support, but that it did not acknowledge the qualitative benefits associated with building the foundation. He further added that it could take years to build relationships with corporations or individuals in order to get a gift or a grant coming back to the foundation. A foundation would need enough time to mature in order to accurately be able to average the benefits that would come in over a number of years.

Mr. Asmussen stated that the fund raising cost perspective included costs that were directly born by the foundation, and that the benefits related to the revenue that was generated for the foundation, not the benefits that were given back to the public.

President Frank cautioned that many of the smaller community and technical colleges would need time to build their alumni associations and increase their foundations. Chair Thiss stated that the audit committee was charged with gathering the information to develop a framework for the discussion on foundations.

Trustee Van Houten agreed that it would be valuable to have a framework in place to measure whether the foundations were using general accounting procedures, but he cautioned that the information in the preliminary report could be easily misunderstood. He added that it would be very difficult for an institution whose activities and workloads varied seasonally, to know for certain that a percentage of a position could be saved if the foundation work was not required.

Trustee McElroy asked if some portion of the cost of the support provided by the Minnesota State Colleges and Universities foundation staff was assigned back to the institution foundations. He further noted that there was overlap between the work of the foundation the work of the alumni association, particularly at the campus level. He asked if there was technical support going to the work of the alumni associations. He noted as similar overlap may exist between the distinction of seeking donations from individuals and families, and seeking grants. He asked if the foundation staff played a roll in those or if that was strictly the work of campus academic staff. Mr. Asmussen stated that the direct salaries were only the percentage of time that Ms. McGlinch and her staff spent on Minnesota State Colleges and Universities foundation activities. He further noted that the part of

their time that was spent supporting other foundations and supporting alumni activities on campus was not included.

Chancellor McCormick commented that the Minnesota State Colleges and Universities foundation could not interfere with money being raised by a college or university or their foundation.

Chair Thiss asked if the fundraising costs should be below a certain percentage of the funds raised in order to maintain a tax exempt status. Mr. Asmussen noted that the Internal Revenue Service reviewed financial information from the 990 forms that were reported by each foundation. Those forms did not include the public investment. Ms. McGlinch noted that the information provided in the gifts and grants report was revenue only and it matched the foundation 990 form and their audit.

Trustee Dickson stated that it took many years for the St. Paul Friends of the Libraries to be a self sufficient foundation, and that the organization was now a two and a half million dollar non-profit with a fifteen million dollar endowment. She further stated that in the past, people were reluctant to give money to government organizations, but she noted that was beginning to change. Trustee Dickson stated that the colleges and universities foundations should be viewed as long term investments if they were to be successful.

Mr. Asmussen concluded by assuring the committee that he would continue to work with Trustee Rice and the advancement committee and Executive Director McGlinch and the General Council's office as they work through their potential contract with the MnSCU foundation.

The meeting adjourned at 9:38 a.m.

Respectfully submitted,
Darla Senn, Recorder