



**AUDIT COMMITTEE  
SEPTEMBER 16, 2008  
12:30 P.M.**

**BOARD ROOM  
WELLS FARGO PLACE  
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.**

**Committee** Chair Thiss calls the meeting to order.

- (1) Minutes of March 18, 2008** (pages 1-8)
- (2) FY 2009 Internal Auditing Audit Plan** (pages 9-17)
- (3) Internal Auditing Report on Affiliated Foundations (pages 18-19)

Members

Scott Thiss, Chair  
James Van Houten, Vice Chair  
Jacob Englund  
Dan McElroy  
David Paskach

**Bolded** items indicate action required.

**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, 4<sup>th</sup> Floor, Board Room, 30 East 7<sup>th</sup> 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 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

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

**Agenda Item Summary Sheet**

**Committee:** Audit Committee

**Date of Meeting:** September 16, 2008

**Agenda Item:** Fiscal Year 2009 Internal Auditing Plan

<input type="checkbox"/> Proposed Policy Change	<input checked="" type="checkbox"/> Approvals Required by Policy	<input type="checkbox"/> Other Approvals	<input type="checkbox"/> Monitoring
 <input type="checkbox"/> Information			

**Cite policy requirement, or explain why item is on the Board agenda:**

Board Policy 1D.1, part 6, requires the Executive Director of Internal Auditing to present an audit plan for each fiscal year.

**Presenter at the Audit Committee meeting:**

John Asmussen, Executive Director, Office of Internal Auditing

**Outline of Key Points/Policy Issues:**

- Anticipates the same level of service as last year.
- Continues to support internal audit needs of Board of Trustees, Office of the Chancellor, and presidents.
- In January 2009, the audit committee must make a final decision on which colleges and universities will be subject to annual financial statement audits and select the topic for the system-wide Internal Audit study.

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

<b>BOARD ACTION</b>
FISCAL YEAR 2009 INTERNAL AUDITING PLAN

**BACKGROUND**

According to Board Policy 1.D., Part 6, the Office Internal Auditing must submit an annual audit plan to the audit committee. The fiscal year 2009 audit plan is attached.

The September meeting also will provide an opportunity for committee members to discuss other audit related priorities for fiscal year 2009 and beyond. Some decisions about audit coverage will need to be made in January 2009. The committee must select the colleges and universities that will be subject to annual financial statement audits (currently, the seven state universities and five of the larger colleges have annual financial statement audits). Also, it must select a topic for a system-wide Internal Audit study. Some possible topics suggested to date, include:

- Information Technology Operations
  - Project Management, including adherence to schedules and budget
  - Quality Assurance Testing
  - Data Warehouse
- Compliance with Board Policies & Procedures
  - Procedure 7.3.3 Credit Cards
  - Policy 5.20 Presidential Expense Accounts
- Spending on Diversity programs

Depending on the complexity and urgency of interest in these topics, the audit committee also could co-source or out-source some of the work.

**COMMITTEE ACTION:**

On September 16, 2008, the audit committee reviewed the draft Fiscal Year 2009 Internal Auditing Plan and approved the following motion:

**RECOMMENDED MOTION:**

The Board of Trustees approves the Office of Internal Auditing annual audit plan for fiscal year 2009.

*Date Presented to the Board of Trustees: September 17, 2008*

**Minnesota State Colleges and Universities**  
**Office of Internal Auditing**  
**Annual Audit Plan**  
**Fiscal Year 2009**

According to Board Policy 1D.1, Part 6, the Office of Internal Auditing must submit an annual audit plan to the audit committee. Professional internal auditing standards require that the audit plan be based on a risk assessment to ensure that audit resources are focused on the most critical projects.

The Office of Internal Auditing abides by the budget process for the Office of the Chancellor. As a result, this audit plan is built on the premise that Internal Auditing will have the same staffing level as in fiscal year 2008.

An overview of the internal auditing activities proposed for fiscal year 2009 is attached at the end of this plan. Further explanation of these internal auditing activities and planned coordination with the external auditors is presented in the following paragraphs.

**RISK ASSESSMENT**

For internal auditing purposes, a risk assessment is intended to support the selection of the highest priority projects using audit resources, specifically assurance services. It begins with identification of an audit universe which represents the population of potential audit areas. The MnSCU Office of Internal Auditing identifies a multi-faceted audit universe. The risk assessment has been organized to group potential audit projects into the following three categories:

**I. Comprehensive Assurance Services for Pervasive, System-wide Risks.** Audit coverage for two areas must be approached strategically to ensure that reasonable controls are established as a foundation for programs and operations.

- **Financial Activities** – In January 2005, the Board of Trustees approved a strategic plan for external audit services. This plan established the extent and frequency for auditing financial activities system-wide and at individual colleges and universities. Audit contracts for four colleges and two universities expire after the fiscal year 2008 audits are completed. Thus, the audit committee must decide whether the scope of individual college and university audits will continue in the future or be modified.

The financial statements provide the basis for determining the significance or materiality of financial activities. Because the effectiveness of internal controls is subject to change and possible deterioration, it is essential that basic assessments of these controls be scheduled on a recurring basis. Through fiscal year 2008, the most significant financial activities (system-wide financial statements and federal financial aid, and 12 of the largest colleges and universities) are scheduled for audit review by external auditors on an annual basis. Internal auditing supports those annual audits. The significant financial activities of the other 20 colleges and universities and the Office of the Chancellor are subject to audit once every three years by the Office of the Legislative Auditor. That

three-year cycle is subject to change if circumstances warrant a more accelerated schedule at a particular institution.

The current audit scope was established to ensure that at least 60% of the MnSCU financial activity was examined as part of an individual college or university audit. The audits of the seven state universities and five colleges meet this 60% threshold. It could be met with a different mix of institutions or some of the larger colleges could be added to the annual audit schedule. A final decision must be made by January 2009 in order to allow sufficient time to issue a Request for Proposal and select audit firms.

- **Information Technology** – Information technology (IT) controls are subject to basic audit coverage as part of the annual audit of the system-wide financial statements. In prior years, the Legislative Auditor had been able to supplement that coverage and conduct periodic audits of higher risk IT operational areas. Staffing turnover, though, has limited the IT audit capacity of the Legislative Auditor and it has not examined MnSCU IT controls since 2006. Since that time, MnSCU IT operations have undergone significant structural changes and taken on increased organizational importance. Thus, it may be timely to arrange for IT audit coverage in some higher risk areas. A January 2009 decision on IT audit coverage will allow for services to be sought through a Request for Proposal, if warranted. Possible audit topics include:
  - Project Management, including adherence to schedules and budget
  - Quality Assurance Testing
  - Data Warehouse

**II. Selected Assurances Services for Other Compliance and Reporting Risks.** Audit coverage for other areas should be selected based on system priorities and criticality of information needed for making system-wide decisions.

- **Reliability of Accountability Measures** – As the organization moves closer to identifying its priority accountability measures, the criticality of having reliable data underlying those measures is heightened. Reliability is concerned with the consistency, stability and precision of data. In 2007, Internal Auditing examined the reliability of student success data, a vital centerpiece to the System-wide Accountability Framework. Additional assurances may be desired for other accountability measures selected by the Board of Trustees. These projects could focus on elements of the system-wide accountability framework or other areas of high interest to the board. For example, some trustees have suggested that a study of diversity spending might be a good topic.
- **Board Policy Compliance** – Board Policies and Chancellor Procedures are important mechanisms for governing institutional practices. Compliance related to finance and information technology activities will be considered as part of the audit plans identified in the preceding section. In 2008, Internal Auditing conducted a system-wide study of affiliated foundations. That project addressed compliance with existing policy provisions and raised additional issues that could be considered from a policy analysis standpoint. With the creation of the new policy compliance position in the Office of the Chancellor, there will be opportunities for Internal Auditing to work collaboratively on policy compliance topics. Other areas that have been mentioned as possible compliance topics include:

- Procedure 7.3.3 Credit Cards
- Policy 5.20 Presidential Expense Accounts

**III. Ad-hoc Assurance Services to address immediate concerns or interests.** Planning cannot anticipate all future needs or interests. Accordingly, some audit resources must be reserved to direct assurance services to important issues that will be identified later in the fiscal year.

- **Management Priorities** – The Office of Internal Auditing serves the Board of Trustees, Chancellor, and presidents. Accordingly, this plan allows for the Chancellor and presidents to request assurance or consulting services that address particular risks that they wish to be examined. To the extent that Internal Auditing has available resources after serving the interests of the Board of Trustees, it will undertake projects requested by the Chancellor and presidents.
- **Emergent Issues** – Internal auditing is constantly scanning the environment to be alert for risks that may require audit resources. An example of emergent risks that require internal auditing services periodically are investigations. Other unforeseen programmatic or compliance matters also may emerge as meriting audit resources. As a result, much of this audit plan has been designed with the flexibility to allow for a reassignment of resources when more pressing issues arise.

## **SERVICES TO THE BOARD OF TRUSTEES**

The Board of Trustees created the Office of Internal Auditing to assist with fulfilling its fiduciary responsibilities. Based on a combination of requests from the board and the governance challenges faced by the Board of Trustees, Internal Auditing proposes to provide the following menu of assurance services to the board for fiscal year 2009:

- **Support External Auditors** – Internal Auditing has ongoing responsibilities for supporting the external auditors that examine the system-level financial statements and federal financial assistance programs and the 12 stand-alone institutional financial statements. This effort ensures that contracts with external auditors are affordable and that external auditors consider high risk financial transactions.
- **Test Board Expenses for Legal Compliance** - Internal Auditing previously conducted quarterly audits of board expenses for several years. Beginning in fiscal year 2008, Internal Auditing continues to assist with quarterly compilations of board expenses, but conduct its audit on an annual audit cycle. The quarterly compilations and annual audit report are submitted to the Executive Committee of the board through the Board Treasurer.
- **Monitor Progress toward Implementing Audit Findings** - It is important that the Board of Trustees have confidence that any problems revealed by audits receive appropriate attention. Internal Auditing monitors progress toward implementing findings identified in audits of financial statements and foundations conducted by CPA firms, financial and information technology controls audited by the Legislative Auditor, projects completed by the Office of Internal Auditing, state financial aid audits conducted by the Minnesota Office of Higher

Education, and program reviews of financial aid conducted by the U.S. Department of Education. It will provide exception reports to the board if adequate progress is not made toward resolving prior audit findings.

- **Reinforce Implementation of Board Policy 1C.2, Fraudulent or Other Dishonest Acts** – Since the board approved Policy 1.C.2 in June 2002, Internal Auditing has worked with the Chancellor's Cabinet and presidential executive teams to implement its provisions. On July 1, 2008, a new Code of Conduct for employees was enacted as Procedure 1.C.0. Internal Auditing will continue to work with the Office of General Council on implementation of this new procedure.
- **Conduct studies that have significant system-wide interest** – Each year, Internal Auditing schedules a study of a topic of major system-wide interest. The risk assessment identifies some high potential projects that Internal Auditing could study in fiscal year 2009. Internal Auditing will recommend a project topic to the audit committee in January 2009.

Although most services provided to the board are in the form of assurance services, the Office of Internal Auditing makes consulting services and professional advice available to the Board of Trustees as requested. For example, Internal Auditing has assisted with planning Board of Trustees retreats in the past. Internal Auditing also reports to the board any significant violations of board policy or law, as required by Board Policy 1D.1.

## SERVICES TO THE CHANCELLOR

The Office of Internal Auditing is committed to supporting the strategic directions developed by Chancellor McCormick. Chancellor McCormick has requested Internal Auditing to complete a quarterly review of his travel and expense account (similar to the testing of board expenses). Other specific internal auditing activities will be designed to correlate to Chancellor McCormick's work plan, as appropriate.

Internal Auditing activities designed to assist the Chancellor include:

- **Facilitate reviews of preparedness for presidential transitions** - Internal Auditing coordinates the work of cross-functional work teams from the Office of the Chancellor on these reviews. Transition reviews will be scheduled as presidential vacancies occur. Internal Auditing facilitated transition reviews at five institutions in fiscal year 2008.
- **Conduct fraud investigations, as requested** – Pursuant to Board Policy 1C.2, Internal Auditing services are available upon request of the Chancellor to conduct fraud investigations. These services are provided on an ad-hoc basis when and if fraud inquiries warrant investigations.
- **Assist Cabinet members with high risk areas** – Internal Auditing assists Vice Chancellors and other Cabinet members with addressing concerns about a variety of high risk areas. For example, at the request of the Vice Chancellor for Information Technology, Internal Auditing is represented on system-level committees concerned with IT security. The Executive Director of Internal Auditing actively supports the efforts of the other vice chancellors and

the Executive Director of Diversity and Multiculturalism, and the Executive Director of the MnSCU Foundation.

- **Support Ongoing Monitoring Activities** – Internal Auditing reports the status of unresolved audit findings to presidents at least twice per year. Also, a status report is provided to the Chancellor at the end of the fiscal year. The Chancellor uses the report as part of the annual presidential performance review process.

## **SERVICES TO PRESIDENTS**

As provided by Board Policy 1D.1, Internal Auditing services are available to college and university presidents upon request. The policy permits the communication of the results of these request services directly to presidents. Only significant violations of board policy or legal requirements, discovered during the project, would have to be communicated directly to the Board of Trustees. Assurance service projects have included topics such as budget and spending practices, financial operations, grant compliance, and cost studies.

In addition, the office has created an array of consulting services that are offered to colleges and universities. Past consulting projects have offered the following services:

- Facilitation services,
- Self-assessment workshops,
- Process mapping, flowcharting, and polarity maps,
- Organizational and process redesign services,
- Climate surveys, and
- Assistance with designing solutions to complex audit findings.

Internal Auditing also offers investigative and inquiry support services to presidents, as requested. Professional advice is available to any interested stakeholders.

Budget constraints require Internal Auditing to be selective about supporting presidential requests for assurance and consulting services.

## **COORDINATION WITH EXTERNAL AUDITORS**

The Office of the Legislative Auditor (OLA) has been a primary source of external auditing services for the System. Since shortly after the 1995 merger, the System has had a contract with the OLA to conduct financial audits of each college and university over a three year schedule. With the hiring of CPA firms to conduct financial statement audits, the role of the OLA has changed. The Legislative Auditor services now focus on the smaller colleges and universities that do not have annual CPA audits.



In April 2007, the Board of Trustees selected the firm of Kern, DeWenter, Viere & Company (KDV) to serve as the principal auditor of the system for the next three years. KDV will audit the comprehensive system financial statements, Revenue Fund financial statements, and federal financial assistance programs for the fiscal years 2007 – 2009. Internal Auditing works closely with KDV and provides significant technical assistance for this important project.

Internal Auditing also works closely with the CPA firms that audit the seven state universities and five of the largest colleges. The Executive Director of Internal Auditing negotiates service level agreements with each firm to ensure that audit resources are used efficiently and effectively.

## **TENTATIVE FY 2009 AUDIT COMMITTEE SCHEDULE**

### **September 2008**

- Review Internal Audit of Affiliated Foundations
- Approve Internal Audit Plan

### **October 2008 (special meeting)**

- Review Legislative Audit Results
- Review Internal Auditing Annual Report
- Discussion of the Roles and Responsibilities of the audit committee (Board Policy 1A.2, Part 5, Subpart E)

### **November 2008**

- Review and Approve Release of Audited Financial Statements

### **January 2009**

- Decide on institutions that will be scheduled for annual financial statement audits
- Select system-wide Internal Auditing project

### **March 2009**

- Select External Auditors for Institutional Financial Statement Audits
- Review Results of Annual Student Financial Aid Audit

Primary Client	Professional Services									
	Assurance	Hours	Consulting	Hours	Fraud	Hours	Professional Advice	Hours	Planning and Development	Hours
Board of Trustees (48%)	Audited Financial Statements	2,400								
	Follow-up and other Audit Services	1,700								
	Expense Reviews	200								
	System-wide studies	3,000								
Chancellor and Presidents (43%)	Presidential Transition Reviews	200	Request Work – Chancellor	900	Inquiries and Investigations	1,200	Contacts and Questions	1,200	Project Development	200
	Request Work – Chancellor	1,200	Request Work - Presidents	900						
	Request Work - Presidents	800								
General (9%)							Roundtables and Task Forces	400	Relationship Building	200
									On-going Risk Assessment	300
<b>Totals</b>		<b>9,200</b>		<b>1,800</b>		<b>1,200</b>		<b>1,600</b>		<b>700</b>
		64%		12%		8%		11%		5%

Major Projects Planned for fiscal year 2009

1. Support external auditors, Office of the Chancellor, and campuses with Financial Statement Audits
2. Support Board of Trustees with implementing governance initiatives, such as indicators, monitoring, etc.
3. Continue with implementation of policy on "Fraud and Other Dishonest Acts."
4. Conduct system-wide study of significant area (topic to be selected later in January 2009).
5. Support functional responsibilities subject to the oversight of the Vice Chancellors.

Other projects to be developed during fiscal year 2009

1. Supporting the priority needs of presidents and the Office of the Chancellor.

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

**Agenda Item Summary Sheet**

**Committee:** Audit Committee

**Date of Meeting:** September 16, 2008

**Agenda Item:** Internal Auditing Report on Affiliated Foundations

☐

Proposed  
Policy Change

☐

Approvals  
Required by  
Policy

☐

Other  
Approvals

☒

Monitoring

☐

Information

**Cite policy requirement, or explain why item is on the Board agenda:**

As part of its 2007-08 audit plan, Internal Auditing has conducted a study of foundations affiliated with the system or its colleges and universities.

**Scheduled Presenter(s):**

John Asmussen, Executive Director, Office of Internal Auditing

**Outline of Key Points/Policy Issues:**

- The final report is being released publicly at the September 17, 2008 audit committee meeting.

**Background Information:**

- The audit committee met jointly with the Advancement committee in December 2007 to review the scope of an internal audit of the MnSCU Foundation and foundations affiliated with MnSCU colleges and universities.
- A preliminary report was presented to the Board of Trustees in March 2008 in order to provide useful information to the Board of Trustees to assist with the decision about renewing a contract with the MnSCU Foundation which was due to expire on June 30, 2008.

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

<b>BOARD INFORMATION</b>
INTERNAL AUDITING REPORT ON AFFILIATED FOUNDATION

The public release of this audit report will occur at the September 17, 2008 audit committee meeting. Therefore, the contents may not be disclosed publicly prior to that time. An advance copy of the report will be sent to the Board of Trustees prior to the meeting. Supplemental materials and copies of the final report will be available at the audit committee meeting. Additional copies of the final report may be obtained from the Office of Internal Auditing web site: [www.internalauditing.mnscu.edu/](http://www.internalauditing.mnscu.edu/) starting on September 17, 2008.

*Date Presented to the Board of Trustee: September 17, 2008.*