

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: August 19, 2010

Agenda Item: Roles and Responsibilities of the Audit Committee

- Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring
- Information

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

Board Policy 1A.2, Part 5, Subpart E stipulates that the audit committee members “receive training annually on their auditing and oversight responsibilities.”

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- Summary of Board Policies pertaining to the Audit Committee
- Highlights key elements of audited financial statements that audit committee members are scheduled to review at its November 2010 meeting.

Background Information:

- Audit committee members will be provided with final draft copies of the financial statements about one week prior to the November committee meeting. In addition, a one-page trends and highlights summary document will be included with each set of statements.

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

BOARD INFORMATION

ROLES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

BACKGROUND

The audit committee is responsible for overseeing the complex, technical work of external and internal auditing. Board Policy 1A.2, Part 5, Subpart E requires annual training for audit committee members to prepare them for carrying out their oversight responsibilities.

This training session will familiarize members with board policies that relate to the audit committee and the Office of Internal Auditing. Specific policies that members should be aware of are:

- 1A.2 Board of Trustees, Part 5, subpart E
- 1C.2 Fraudulent or Other Dishonest Acts
- 1D.1 Office of Internal Auditing

Board policies are located at (<http://www.mnscu.edu/board/policy/>) and are attached for your convenience.

In addition, this training session is intended to prepare members for the process of reviewing the audited financial statements. In November 2010, the audit committee will review the audited financial statements for the MnSCU system, its Revenue Fund, and 13 of the largest colleges and universities. The attached checklist is intended to facilitate the review of those financial statements.

Date Presented to the Board of Trustee: August 19, 2010



Minnesota State Colleges and Universities
Board Policies
Chapter 1 - System Organization and Administration
Section A - System & Office Operations

1A.2 Board of Trustees

Part 5. Standing Committees, Committees, and Working Groups of the Board.

Subpart E. Audit Committee. The audit committee of the board consists of no fewer than three members to be appointed by the chair of the board annually. The committee shall meet at the call of its chair. The audit committee is charged with oversight of internal and external audits of all system functions including individual campus audits. The board may hire an executive director of internal auditing and other auditors who shall report directly to the committee and the board. Committee members shall receive training annually on their auditing and oversight responsibilities.

The audit committee is responsible for overseeing the service of internal and independent auditors. Policy 1D governs the Office Internal Auditing. The committee has the following responsibilities for independent auditors:

1. Oversee the process for selecting independent auditors. The committee shall select one or more independent auditors to audit system-level or institutional financial statements and recommend their appointment to the board. An independent audit firm may not be appointed to a particular engagement for more than six consecutive years.
2. Review any non-audit services proposed by independent auditors under contract for audit services. The board must approve in advance any non-audit services to be provided by independent auditors under contract for audit services unless the scope of non-audit services is completely distinct from the scope of the audit engagement.
3. 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.

Date of Implementation: 03/21/95

Date of Adoption: 03/21/95



Minnesota State Colleges and Universities
Board Policies
Chapter 1 - System Organization and Administration
Section C - Code of Conduct & Ethics

1C.2 Fraudulent or Other Dishonest Acts

Part 1. Purpose. MnSCU is committed to creating an environment where fraudulent and other dishonest acts are not tolerated. All MnSCU employees are responsible for complying with the State Code of Ethics (Minnesota Statutes Section 43A.38), other state statutes and board policies that govern their conduct, and ensuring that all resources entrusted to them are used ethically, prudently, and for their designated purpose. In addition, to ensure that MnSCU resources are used appropriately, managers and supervisors are responsible for educating employees about proper conduct, creating an environment that deters dishonesty and maintaining internal controls that provide reasonable assurance of achieving management objectives, and detecting dishonest acts. Furthermore, managers and supervisors must be cognizant of the risks and exposures inherent in their area of responsibility and be aware of symptoms of fraudulent or dishonest acts, should they occur. This policy establishes responsibilities for investigating potential incidents of fraud or other dishonest acts, taking remedial actions, and reporting evidence to the Legislative Auditor and other appropriate authorities.

Part 2. Applicability. This policy applies to all MnSCU trustees and, employees, including faculty (full-time, adjunct and part-time faculty), administrative staff, and student employees. It also requires employees to report the actions of other parties that may result in financial losses or possible criminal conduct affecting MnSCU resources or information. These other parties include (1) students; (2) contractors and vendors; (3) organizations affiliated with MnSCU, including foundations governed by MnSCU policy 8.3; and (4) any other person or organization that uses MnSCU resources or information, with or without authorization.

This policy does not apply to destruction or misappropriation of personal or private property. Those matters shall be reported to appropriate college, university, or Office of the Chancellor officials and to law enforcement officials when appropriate. Also, substantiated violations involving personal or private property are subject to personnel action or discipline under the student conduct code.

This policy does not apply to allegations of academic misconduct. Those matters shall be referred to appropriate college or university officials.

This policy also does not apply to allegations of discrimination or harassment. Those matters are governed by MnSCU policy 1.B.1.

Part 3. Definitions.

Subpart A. Dishonest act. A dishonest act generally involves a deliberate act or failure to act with the intention of obtaining an unauthorized benefit, destruction of property or otherwise fraudulent behavior. Dishonest acts include, but are not limited to:

- Theft or misappropriation of funds, long distance telephone services, supplies, property, computer software, intellectual property, or other resources;
- Forgery or alteration of documents;
- Bribery or attempted bribery;
- Unauthorized use of records or access to information systems, including unauthorized sharing of computer security clearances;
- Unauthorized alteration, manipulation, or destruction of computer files and data;
- Falsification of reports to management or external agencies;
- Conflicts of interest that pursue a personal benefit or advantage while compromising the public interest;
- Improper handling or reporting of financial transactions;
- Authorizing or receiving compensation for goods not received or services not performed;
- Authorizing or receiving compensation for hours not worked;
- Incurring obligations in excess of appropriation authority, and
- Willful violation of laws, regulations or policies, or contractual obligations when conducting MnSCU business.

Subpart B. Fraud Inquiry. A fraud inquiry is the initial process for examining complaints, allegations, and other possible evidence of dishonest acts. The objective of a fraud inquiry is to determine whether sufficient evidence exists to warrant a fraud investigation.

Subpart C. Fraud Investigation. A fraud investigation is the process of collecting and examining evidence to determine whether a dishonest act involving possible criminal action or significant financial loss has occurred.

Part 4. Responsibilities.

Subpart A. Compliance. Dishonest acts are prohibited pursuant to this policy and applicable law. Employees found to have committed a dishonest act as defined by this policy shall be subject to sanctions, restitution and other remedies as deemed appropriate by MnSCU officials.

Subpart B. Employee reporting of suspected fraudulent or other dishonest acts. An employee with a reasonable basis for believing fraudulent or other dishonest acts have occurred has a responsibility to report the suspected act in a timely manner. Reports should be made to the employee's immediate supervisor or manager, unless the employee suspects that the supervisor or manager has participated in or condoned the act. In that case, the employee should report the matter to the next highest level of supervision or management or directly to the college, university, or Office of the Chancellor Director of Human Resources. Employees are encouraged to report matters through their designated college, university or Office of the Chancellor channels, but may report any matters directly to the MnSCU Office of Internal Auditing. This policy shall not prohibit prompt notification to appropriate authorities when an

Discuss the Roles and Responsibilities of the Audit Committee

immediate threat to personal safety exists or other circumstances justify such notice. Upon discovering evidence of possible fraudulent or dishonest acts, employees should not confront individuals suspected of wrongdoing or initiate fraud investigations on their own because such actions may compromise any ensuing investigation. Employees shall not make statements or disclosures knowing they are false or in reckless disregard of the truth.

Subpart C. Conducting a fraud inquiry. Presidents, the Chancellor, or the Executive Director of Internal Auditing shall be responsible for conducting fraud inquiries to determine whether evidence of fraudulent or other dishonest acts is substantiated and merits a fraud investigation or other remedy. Presidents or the Chancellor may seek the assistance of the Office of Internal Auditing in conducting fraud inquiries. If a fraud inquiry reveals evidence of possible criminal action or significant financial loss, then a fraud investigation shall be conducted pursuant to Part 4, Subpart D of this policy. If a fraud inquiry does not reveal evidence of possible criminal actions or significant financial loss related to a dishonest act, but substantiates a violation of state or federal law, MnSCU or college or university policies, or other applicable requirements, the matter shall be referred to the appropriate campus or Office of the Chancellor official for further action. Any incident that reveals possible employee misconduct may be subject to a personnel investigation by the college, university, or Office of the Chancellor, as appropriate, and subject to personnel action in accordance with the provisions of the applicable collective bargaining agreement or other personnel plan.

Subpart D. Conducting a fraud investigation. If it is determined under Part 4, Subpart C that a fraud inquiry merits a fraud investigation, the president or Chancellor shall report the matter to the Office of Internal Auditing. The president or Chancellor shall consult with the Executive Director of Internal Auditing to determine responsibilities for conducting the fraud investigation. The MnSCU General Counsel, the Legislative Auditor, or other administrative officials also shall be consulted, as appropriate and when required by this policy.

Part 5. Remedial Actions. If a fraud investigation substantiates that a violation has occurred, the following remedial actions against or by MnSCU employees shall be taken as appropriate:

Subpart A. Recovery of Losses. Appropriate action will be taken to recover assets lost as a result of an act of dishonesty. Full recovery will constitute the value of benefits gained by an employee or beneficiary other than MnSCU or the documented loss, whichever is larger, and, if appropriate, the cost of investigation, recovery, or other costs. For misuse of long-distance telephone services, recoveries must include the fair market value of the service, taxes, and interest. All reasonable means, consistent with state law, will be sought to recover losses, including voluntary repayments, withholding from salary and wages, insurance proceeds when applicable, and legal action when necessary. Significant financial losses shall be reported to the Vice Chancellor - Chief Financial Officer. Dishonest acts that result in significant loss or damage to electronic information or information systems shall be reported to the MnSCU Chief Information Officer. The MnSCU General Counsel shall determine whether the evidence available and the cost of recovery justify legal action to recover losses.

Subpart B. Referral to Law Enforcement. A college, university or Office of the Chancellor shall consult with the MnSCU General Counsel prior to disclosing private or confidential data

Discuss the Roles and Responsibilities of the Audit Committee

on employees to law enforcement authorities pursuant to Minnesota Statutes section 13.43, subd. 15.

Subpart C. Internal Control Deficiencies. The Office of Internal Auditing shall consider whether evidence of possible fraudulent or other dishonest acts reveals areas or practices in college, university, or system internal controls needing modification. The Office of Internal Auditing shall recommend corrective actions to the president or chancellor, as appropriate, and the Vice Chancellor – Chief Financial Officer. Internal Auditing shall follow-up on its recommendations and report progress to the board of trustees consistent with procedures for audit follow-up.

Subpart D. Employee Disciplinary Actions. Employees found to have participated in fraudulent or other dishonest acts, or any employee who hinders a fraud inquiry or investigation by making a false or misleading statement, or any employee who has knowledge of a dishonest act, but fails to report it according to this policy shall be subject to disciplinary action. The appropriate campus official or Vice Chancellor for Human Resources shall determine whether employee disciplinary action is warranted. The provisions of collective bargaining agreements shall be observed for any employee disciplinary proceedings.

Part 6. Data Practices. Fraud inquiry or investigation data must be handled in accordance with the Minnesota Government Data Practices Act and other applicable law.

Part 7. Whistleblower Protection. Employees who report suspected fraudulent or other dishonest acts pursuant to Minnesota Statutes Section 181.932 shall be protected from retaliation. The identity of information sources shall be protected when required by Minnesota Statutes Section 181.932 or Minnesota Statutes Section 13.392.

Part 8. Other Policies. This policy shall not be construed to limit the ability to enforce any other applicable policy or law not incorporated under this policy or to limit the remedies available for violations that occur.

Part 9. Reporting To The Board Of Trustees And The Legislative Auditor. The Executive Director of Internal Auditing shall notify the Board of Trustees of any significant violations of law or board policies, as required by board policy 1D, or any material departures from this policy.

The Executive Director of Internal Auditing is responsible for reporting evidence to the Office of the Legislative Auditor as required by Minnesota Statutes Sections 10.47, 43A.39, and 609.456, Subdivision 2 and, if federal funds are involved, to the responsible federal authority. Employees who have reported evidence according to the provisions of this policy will have fulfilled their statutory reporting obligations for reporting to the Office of the Legislative Auditor.

Date of Implementation: 06/19/02

Date of Adoption: 06/19/02



Minnesota State Colleges and Universities
Board Policies
Chapter 1 - System Organization and Administration
Section D - Office of Internal Auditing

1D.1 Office of Internal Auditing

Part 1. Mission. The Office of Internal Auditing provides independent and objective assurance and consulting services designed to add value and improve MnSCU colleges and universities and their supporting systems.

Part 2. Values And Principles. Internal Auditing assists the Board of Trustees, Chancellor, presidents, and all other levels of management in accomplishing objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes, such as policies, practices, procedures, organizational structures, goals and objectives, information systems, and programs.

The Office of Internal Auditing is committed to:

- Supporting the success of public higher education (student success and learning),
- Practicing with integrity, honesty, and objectivity.
- Complying with professional and ethical standards
- Protecting confidentiality of information
- Conveying results first to appropriate management (no public surprises) and as necessary to other stakeholders
- Promoting accessibility to internal auditing services, both geographically and by fostering relationships with campus personnel
- Understanding the unique needs of individual institutions
- Maintaining excellence through innovative and proactive methodologies, professional development, and continuous learning.
- Celebrating success.

Part 3. Vision Statement. The Office of Internal Auditing is a catalyst for improvement.

Part 4. Services. Internal Auditing shall be an advocate to improve and maintain accountability and promote the proper management oversight of system office and college and university programs and activities. Internal Auditing is intended to complement, and not replace, other services available either on campuses or in the system office. It has particular expertise in topics such as auditing, accounting, internal controls, financial risk management, and organizational development. When dealing with matters outside its expertise, Internal Auditing shall seek the assistance of other experts in the organization or obtain external consultative services, if necessary. It offers the following types of services in order to assist the Board of Trustees, Chancellor and presidents in accomplishing their objectives and in improving operations.

Discuss the Roles and Responsibilities of the Audit Committee

- a) **Assurance Services** consist of examinations designed to inform interested stakeholders about the reliability and accuracy of information and information systems. System-wide topics may be selected by formal action of the Board of Trustees. Internal Auditing may also enter into agreements to conduct special studies requested by the Chancellor or a president. Studies may focus on (1) compliance with board policies, laws, and regulations, (2) reliability of information, (3) economy and efficiency of operations, (4) effectiveness in meeting goals and objectives, or (5) safeguarding of assets. Internal Auditing shall coordinate all audit-related activities conducted by the Legislative Auditor and external auditors within MnSCU. Internal Auditing must follow-up on audit findings generated by either internal or external audits and ensure that findings are satisfactorily resolved.
- b) **Fraud Inquiry and Investigation Support Services** are intended to augment the efforts of colleges and universities to ensure that evidence of fraud or dishonest acts is investigated professionally and promptly. Internal Auditing shall look to legal counsel for leadership on any issues that may involve criminal action or reveal potential legal exposures. It is recognized that these matters must be reported to the Legislative Auditor as required by state law.
- c) **Consulting Services** may be provided at the request of presidents, the Chancellor, or senior administrative officials, subject to the availability of resources and internal auditing expertise. These services are characterized by an identified need for improvement, a spirit of partnership and collaboration between requestor and Internal Auditing, and a focus on organizational learning. They require management's leadership and commitment, allocation of time and other resources, and may include phasing of efforts to accommodate schedules and requestor's needs. Internal Auditing provides organizational expertise, data gathering and facilitation services to expedite desired changes.
- d) **Professional Advice** shall promote an understanding and implementation of state laws and rules, federal laws and regulations, board policies and procedures, professional accounting and auditing standards, and best practices in management and organizational development. Advice may be communicated in response to questions for which Internal Auditing has expertise, through availability of self-assessment tools, by broadly relaying or publicizing information on selected topics, or by offering workshops or seminars.

Part 5. Authority And Responsibilities. Internal Auditing has the authority to audit all parts of MnSCU and is granted full and complete access to all MnSCU records (manual or electronic), physical properties and personnel relevant to any services provided according to this policy. Access is also granted, by contract, to relevant records of all MnSCU related foundations, contractors, and partners. Documents and information given to internal auditors shall be handled in compliance with provisions of the Minnesota Government Data Practices Act.

Internal Auditing shall have no direct authority over or responsibility for any of the activities or operations they review. Unless extenuating circumstances dictate, internal auditors should not develop and install procedures, prepare records or engage in activities which would normally be reviewed by Internal Auditing. Internal Auditing may review proposed systems and processes prior to implementation to assure adequate controls will exist.

Part 6. Organization. The Executive Director of Internal Auditing reports directly to the Board of Trustees through the Chair of the Board of Trustees Audit Committee. The Chancellor will handle

Discuss the Roles and Responsibilities of the Audit Committee

matters related to audit departmental operations in consultation with the Chair of the Audit Committee.

The Executive Director of Internal Auditing shall present to the Audit Committee a system-wide risk assessment and audit plan for each fiscal year. The plan shall include all Internal Auditing and external audit activities planned for the ensuing fiscal year. The Executive Director shall report any significant changes to the audit plan throughout the year.

The Executive Director has direct and unrestricted access to the Board of Trustees. The Executive Director has the right and responsibility to report to the Trustees any circumstances that are significant violations of MnSCU controls, policies or procedures and any other matters that the Executive Director believes warrant Trustee notification. Internal Auditing is a function shared with the Chancellor and the presidents. Therefore, the Executive Director has the right and responsibility to report any matters to the Chancellor and presidents that warrant their notification or assist them in improving their operations.

Part 7. Internal Auditing Data. As required by Minnesota Statutes Section 13.392, Subdivision 1, data notes, and preliminary drafts of reports created, collected, and maintained by Internal Auditing are confidential data on individuals or protected nonpublic data while work is in progress. The final report is public data, except as provided under the Minnesota Government Data Practices Act.

Also, as required by Minnesota Statutes Section 13.392, Subdivision 2, data on an individual supplying information for an audit or investigation that could reasonably be used to determine the individual's identity, are private data on individuals if the information supplied was needed for an audit or investigation and would not have been provided to Internal Auditing without an assurance to the individual that the individual's identity would remain private.

Part 8. Reporting. Internal Auditing reports resulting from services requested by the Audit Committee shall be distributed to members of the Board of Trustees. Copies of these reports also shall be distributed to management as appropriate. The Executive Director shall enter into an agreement with the Chancellor, other senior administrative official, or a president to direct the distribution of Internal Auditing reports resulting from services not requested by the Audit Committee. Such reports shall be distributed to the Board of Trustees if the circumstances that are cited in Part 5 of this policy are revealed.

The Executive Director shall present periodic follow-up reports to the Audit Committee that shows progress toward implementing internal and external audit findings previously reported to the committee.

The Executive Director shall present an annual report to the Audit Committee that shows the results of audits conducted during the previous fiscal year, including a summary of significant audit results.

Date of Implementation: 07/19/00

Date of Adoption: 07/19/00

Financial Statement Audits Checklist

Introduction

One of the most important responsibilities of the audit committee is to serve as “gatekeeper” for the release of financial statements. These financial statements are used by fiscal analysts that evaluate the credit worthiness of the State of Minnesota and the Minnesota State Colleges and Universities. Other users include potential donors, legislators, faculty and student unions, and other interested stakeholders. This checklist is designed to highlight the important aspects of the audited financial statements to be reviewed.

- I. Reports from the external auditor.** These reports consist of the Independent Auditor’s Report (which precedes the financial statements) and the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Audit Standards* (which follows the notes to the financial statements). External auditors also may issue a separate letter to the committee that provides findings and recommendations related to internal controls and compliance.

YES NO

- | | | |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | Does the <u>Independent Auditor’s Report</u> cite any departures from Generally Accepted Accounting Principles? |
| <input type="checkbox"/> | <input type="checkbox"/> | Does the <u>Independent Auditor’s Report</u> cite any limitation on applying Generally Accepted Auditing Standards? |
| <input type="checkbox"/> | <input type="checkbox"/> | Does the <u>Report on Internal Control and Compliance...</u> cite any exceptions noted as material weaknesses or significant deficiencies? |
| <input type="checkbox"/> | <input type="checkbox"/> | Does the <u>Report on Internal Control and Compliance...</u> cite any instances of non-compliance? |
| <input type="checkbox"/> | <input type="checkbox"/> | Has the auditor communicated any disagreements with management or difficulties encountered during the audit? |
| <input type="checkbox"/> | <input type="checkbox"/> | Has the auditor communicated any significant audit adjustments made to the financial statements? |

If any there is an affirmative answer to any of these questions, more information must be obtained to evaluate the consequences of the issue.

II. Basic Financial Statements and Trends. The basic financial statements include the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. In addition, a Management Discussion & Analysis (MD&A) section of the financial report is designed to highlight the core business activities of the organization. Based on the basic statements and MD&A, are there noteworthy trends in any of the following [Note: additional guidance will be provided to assist with evaluating these financial trends.]:

YES NO

- | | | |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | Tuition and Fees |
| <input type="checkbox"/> | <input type="checkbox"/> | State Operating and Capital Appropriations |
| <input type="checkbox"/> | <input type="checkbox"/> | Employee Compensation |
| <input type="checkbox"/> | <input type="checkbox"/> | Federal and State Financial Aid Programs |
| <input type="checkbox"/> | <input type="checkbox"/> | Capital Asset Construction and Maintenance |
| <input type="checkbox"/> | <input type="checkbox"/> | Auxiliary Operations, such as bookstores, residence halls, and food services |
| <input type="checkbox"/> | <input type="checkbox"/> | Unrestricted Net Asset Balances (Check the primary reserve ratio disclosed in the MD&A section for adequacy) |

If any there is an affirmative answer to any of these questions, more information must be obtained to evaluate the consequences of the issue.

III. High Risk Transactions. The notes to the financial statements explain the accounting methods used to prepare the financial statements and must highlight any transactions that have a significant impact. The notes are a good source for further information on high risk transactions. Some transactions present greater challenges and, thus, risks to the quality of financial reporting. Are there disclosures on the following issues:

YES NO

- | | | |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | Prior Period Adjustments |
| <input type="checkbox"/> | <input type="checkbox"/> | Significant joint ventures, alliances, and partnerships |
| <input type="checkbox"/> | <input type="checkbox"/> | Contingent Liabilities Resulting from Litigation |
| <input type="checkbox"/> | <input type="checkbox"/> | Related Party Transactions |
| <input type="checkbox"/> | <input type="checkbox"/> | Subsequent Events. |

If any there is an affirmative answer to any of these questions, more information must be obtained to evaluate the consequences of the issue.