



**AUDIT COMMITTEE
MARCH 16, 2010
11:00 A.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 January 19, 2010** (pages 1-4)
- (2) **Minutes of February 10, 2010** (pages 5-11)
- (3) **Select Principal External Audit Firm** (pages 12-14)
- (4) Review Results of Annual Student Financial Aid Audit (pages 15-16)
- (5) Preliminary Review of Policy 1D.1 (pages 17-21)
- (6) Follow-up to the OLA's Evaluation of the System Office (pages 22-23)

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
January 19, 2010**

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

***Audit Committee Members Absent:** Jacob Englund.*

***Other Board Members Present:** Trustees Duane Benson, Cheryl Dickson, Christopher Frederick, David Olson, and Tom Renier.*

***Leadership Council Committee Members Present:** John Asmussen, President Pat Johns, Laura King, and Gail Olson.*

The Minnesota State Colleges and Universities audit committee held its meeting on January 19, 2010, at Wells Fargo Place, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair Thiss called the meeting to order at 1:26 p.m.

Approval of the Audit Committee Meeting Minutes

Chair Thiss called for a motion to approve the November 18, 2009, audit committee meeting minutes. There was no dissent and the motion carried.

1. Establish the Search Process for the Executive Director of Internal Auditing Position (Action Item)

Audit Committee Chair Thiss reminded members that Executive Director John Asmussen would be leaving the Minnesota State Colleges and Universities in July, 2010. He stated that there would need to be a search process established to find candidates to fill the executive director of internal auditing position. Trustee Thiss introduced Ms. Lori Lamb, Vice Chancellor for Human Resources.

Ms. Lamb recommended that the Board of Trustees delegate to the chancellor the authority to convene a screening committee. She stated that the committee would likely be chaired by Trustee Thiss as Chair of the audit committee and it would be staffed appropriately with other trustees, campus personnel, Office of the Chancellor staff, and individuals from the audit community. Ms. Lamb stated that the purpose of the committee would be to solicit nominations and applications, screen applications, conduct initial interviews, and then make a recommendation to the board through the audit committee of three individuals to come before the committee for a final interview.

Ms. Lamb stated that there might be a risk of dissuading some interested candidates from applying for consideration if the process were public from an early stage. She added that it was important to preserve the ability to get as broad a pool of candidates as possible. Trustee Van Houten stated that other positions in the state were hired through a public process without a significant loss in candidates.

Trustee Thiss asked what the expected timeline was for the search process. Ms. Lamb stated that the first step would be to review and update the position description in order to generate the position announcements. She stated that there should be a period of thirty to sixty days for recruiting to ensure that there would be the largest pool of applicants possible. She stated that they should expect another thirty to forty-five days for review of resumes and to conduct initial interviews. She stated that the goal would be to come before the board with a recommendation for an appointment in June 2010.

Trustee Van Houten stated that the audit committee should have the opportunity to discuss the qualifications they would like to see in the position before it went out for public posting. Trustee Thiss agreed.

Trustee Paskach asked if a consultant would be employed to conduct the search. Ms. Lamb stated that they were not recommending the use of a national search consultant. She stated that would be a broad enough applicant pool locally and regionally. Trustee Paskach agreed, but added that the membership of the screening committee should be approved by the audit committee. He added that there should be a significant representation of trustees as well as external audit involvement. Trustee Thiss stated that the trustees on the search committee should come from the audit committee initially, and that additional trustees might be utilized for the review of final candidates.

Trustee Thiss stated that they would plan an audit committee in February 2010 for further discussion of the position qualifications as well as the search committee structure.

Trustee Van Houten made the motion, Trustee McElroy seconded. The Audit Committee recommends that the Board of Trustees approve the following motion:

RECOMMENDED COMMITTEE ACTION:

The committee recommends that the Board of Trustees adopt the following motion:

RECOMMENDED MOTION:

The Board of Trustees delegates authority to the Chancellor to initiate a search process to hire a new Executive Director of Internal Auditing. The search process should culminate in identifying up to three candidates to fill this position. The Board of Trustees reserves its authority to make the final selection for filling the position.

2. Review Internal Auditing Annual Report (Information Item)

Mr. John Asmussen, Executive Director of the Office of Internal Auditing, stated that the Internal Auditing Annual Report was required under board policy 1D.1.

Mr. Asmussen assured the committee that he was independent in fact and in appearance. He stated that organizationally, the office was structured in a manner that helped to ensure that independence, but added that he personally took great care and pride to

distance himself from the decisions of management.

Mr. Asmussen stated that 78% of prior audit findings from had been fully resolved, and he noted that number was down from 83% last year. He stated that the decline had been driven in part by a late influx of findings from the occupational trades program evaluation and the Office of Internal Auditing was in the process of conducting follow-up on those findings. He further added that there also had been issues that had been unresolved for a period of time, including security related issues in the area of information technology. He stated that interim Vice Chancellor for Information Technology Services had given her assurances that progress was being made on those findings and that monthly reports were going to the Chancellor. Mr. Asmussen assured members that they should see a higher rate of resolved findings in the next report.

Mr. Asmussen stated that the Office of the Legislative Auditor's findings, cited in September to the audit committee, would not have been repeat findings that would have counted against the implementation rate. He noted that the findings had been cited at other colleges previously and had appeared at new colleges this year. He further noted that the Chancellor had made it clear to the presidents that he expected them to study other legislative audit reports to ensure that they didn't repeat similar mistakes. Mr. Asmussen stated that his office was committed to doing an intensive follow-up at all of the colleges and universities to look specifically for those issues that had shown a recurring nature; to try to offer assurance that lessons were being learned and that the same kind of findings would not occur in the future. Mr. Asmussen stated that because of this extensive follow-up project he would not be bringing a list of recommended projects for internal auditing to undertake this year.

Mr. Asmussen pointed out the quality assessment effort that the Office of Internal Auditing underwent this past year. He reminded members that internal auditing standards required an internal self-assessment every couple years to augment the external review.

Mr. Asmussen stated that there were three items that came out of the internal review that would attention in the next year. The first item would be a five-year review of board policy 1D.1. The second item would be to extend the internal audit plan to ensure that there would be adequate audit coverage of the information technology operations. The final item would be to assess the completeness of management's risk assessment process.

Finally, Mr. Asmussen reminded members that the audit contract with Kern DeWenter Viere had come to an end, stating that they have completed six years of service and board policy limits the number of consecutive years that one firm can serve as principal auditor at six years. He stated that an RFP to find a replacement principal auditor had been prepared and would be printed in the Minnesota State Register on Monday, January 25, 2010. Mr. Asmussen stated that they would have a recommendation for a new principal auditor for the audit committee in March.

Chair Thiss agreed that there should not be a special board project this year, and asked that Mr. Asmussen report in March regarding the follow-up work that staff would be conducting. Trustee Paskach agreed as well, stating that he would like to have Mr. Asmussen give a state of the function review before his last day in July 2010. Trustee

Van Houten added that we like to see an orientation program laid out before the new executive director of internal auditing was hired.

Trustee Van Houten expressed his appreciation of the work that Kern, DeWenter, Viere had done as the principal auditor over the past six years. Trustee Thiss concurred. Mr. Asmussen stated that Kern, DeWenter, Viere was still under contract to audit four of the individual campuses and added that he would work closely with the chair through the search process for a new firm.

The meeting adjourned at 1:54 p.m.

Respectfully submitted,
Darla Senn, Recorder

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE
MEETING MINUTES
February 10, 2010**

Audit Committee Members Present: Trustees Scott Thiss, Chair; Jacob Englund (by Phone), Dan McElroy, David Paskach (by Phone), and James Van Houten (by Phone).

Audit Committee Members Absent: none.

Other Board Members Present: Trustees Duane Benson, Cheryl Dickson, Christopher Frederick (by Phone), and Christine Rice.

Leadership Council Committee Members Present: John Asmussen, President Pat Johns, Linda Baer, Laura King, Lori Lamb, Gail Olson, and Carolyn Parnell.

The Minnesota State Colleges and Universities audit committee held its meeting on February 10, 2010, at Wells Fargo Place, 3rd Floor, Conference Room 3309, 30 East 7th Street in St. Paul. Chair Thiss called the meeting to order at 2:30 p.m.

1. Office of the Legislative Auditor's Evaluation Report, *MnSCU System Office* (Information Item)

Audit Committee Chair Thiss began by welcoming Mr. James Nobles, Legislative Auditor; Mr. Joel Alter, Project Manager; and Ms. Valerie Bombach, Program Evaluator. Trustee Thiss explained that Chancellor McCormick and Board Chair David Olson had written a letter to the Legislative Audit Commission last year, requesting a program evaluation on the Office of the Chancellor. The Office of the Legislative Auditor conducted the evaluation and released its report and findings on February 9, 2010. He explained that the findings would be referred to Chair Olson who would refer them out to various policy committees.

Mr. Nobles thanked the committee for inviting them to present the report. He further complimented the Minnesota State Colleges and Universities for their accountability in responding to audit findings and recommendations quickly and seriously. Mr. Nobles stated that legislators should look to the board of trustees to follow-up on the audit findings and recommendations and report back to the legislature about actions that had been taken. He further noted that legislators' primary focus was on students and the assurance that course credits would transfer from one college to another within the system.

Mr. Alter began his presentation by highlighting a couple of overall observations made in the report. He noted first that when the legislature created the Minnesota State Colleges and Universities system, it was intended to be one system rather than a collection of individual colleges and universities, and it was intended to have system-wide direction and system-wide support and coordination. He further noted that while the report cited many positive conclusions, there were some additional steps that needed to be taken to

better assure that the system office was performing functions that were truly essential, efficient and effective, and that the system office was playing a role of fostering at the campus level, efficient and effective administrative services.

Trustee Benson asked for clarification of the percentage of state funds that were spent by the system office. Mr. Alter stated that 12% of the state dollars went to the system office but that overall, the system office represented about 5% of Minnesota State Colleges and Universities total spending. He added that it was difficult to compare systems around the country. The Minnesota State Colleges and Universities was fairly low in terms of its expenditures per student on institutional support spending, but when a broader definition of administrative spending was used, the system was above average.

Chancellor McCormick stated that a number of other systems took money from tuition and the state rather than just from state funding. He also noted that the Minnesota State Colleges and Universities had made the decision to handle information technology at the system office level rather than locally. The majority of the growth in the system office had been in the area of information technology, but Chancellor McCormick added that campuses had testified that to conduct the same information technology work locally would have cost up to three times more.

Trustee Van Houten asked if there were specific issues of strategic importance that presidents felt should have more attention from the board. Mr. Alter stated that there may be a perception that issues like student transfer, which was fundamental to why the Minnesota State Colleges and Universities were created, were lost in the shuffle when there were other things going on.

Trustee Van Houten asked whether the current structure, with a huge span of control for the chancellor, was the best management structure for the system. Mr. Alters stated that the report did not directly address span of control, but he added that it had been raised as an issue of concern. He added that balancing the needs of the system office and that of the campuses and so many direct reports, was a continuing struggle. Mr. Nobles stated that the size of the system alone created an enormous management challenge. He stated that the system could have been designed differently, such as with regional deputy chancellors, but he added that having presidents report directly to the chancellor may have created a more integrated system with fewer barriers between the three different kinds of institutions. Finally, Mr. Nobles stated that Chancellor McCormick would be best able to determine if the burden created by the span of control was too great.

Chancellor McCormick stated that the presidents should be able to report directly to the chancellor and that there was value in the chancellor having individual contacts with the communities and presidents. He added that the vice chancellors played an integral role in preparing for the presidential evaluations. Mr. Nobles agreed and stated that there were probably a lot of presidents who really appreciated that the chancellor came to their campus directly rather than sending someone else.

Trustee McElroy asked if the issue of credit transfer was a greater concern for two-year college presidents. Mr. Alter stated that four-year university presidents expressed the same concerns. Mr. Nobles added that the issue of credit transfer was an important topic for legislators as well. The expectation was that when a student registered at a state college or university, they would be registering into a system, and that there would be no question that their course would be recognized when they chose to transfer to another institution.

Trustee McElroy stated that there were certain national accreditations for state universities with standards that made transfer from a community college, where courses were taught by people without a terminal degree in the field, more challenging. He stated that there needed to be a sense of urgency around addressing the transfer issues and he added that the board needed to send a strong message that they would do anything necessary to solve the problems. He stated that there should be a date set, prior to the chancellor's departure, when they would expect to see the problems resolved. Trustee Thiss agreed that they need to have a clear completion date, and he added that they should then go back to the legislators with assurances that the issues had been resolved.

Trustee McElroy asked if the report addressed the reasons why credits didn't transfer. Mr. Alter stated that at times transfer advisors had not been trained properly or were not giving consistent advice, other times when judgments needed to be made about whether coursework was comparable, students were told that syllabus information was considered to be intellectual property and the faculty wouldn't provide the information. Finally, Mr. Alter stated that in the past, colleges and universities had entered into individual articulation agreements, but he added that the numbers of agreements varied from campus to campus, and it was difficult to locate all of those agreements on the system Web site.

Trustee McElroy asked if there were particular disciplines that seemed to more transfer issues than others. Mr. Alter stated that some disciplines had ongoing discussions about transfer and may have worked through some of the issue.

President Pat Johns, Anoka-Ramsey Community College, cautioned that it also was important to differentiate between fact and fiction. Coursework that received a D grade typically would not transfer, and he stated that in those cases it was more about clarification and counseling with students than making courses transfer. President Johns further stated that in some cases, faculty require that certain courses be taken as upper division and therefore would not accept courses taken as lower division. He cautioned that two-year colleges should review the courses offered at the lower division to avoid "credit creep" into upper division.

Mr. Nobles agreed that the issues were ones of both substance and perception, but he cautioned that perception issues needed to be better communicated and addressed. Ms. Linda Baer, Senior Vice Chancellor for Academic and Student Affairs, agreed. She stated that they had developed an information Web site and established transfer training for counselors, but she added that students didn't always go there first for

information. Dr. Baer added that they had been working with the student associations to determine where students would go for accurate information.

Trustee Thiss asked if charge backs had been taken out of the system office expenditures. Ms. Bombach stated that all dollars had been included in the analysis, in part because they had tried to understand the actual cost associated with the services that were providing.

Trustee Benson asked if the study indicated that presidents generally felt they wanted more decentralization. Mr. Alter stated that the survey had primarily asked for their perceptions on effectiveness and efficiency of the services. Trustee Benson asked if there were some suggestion or finding that would direct the appropriate role for the board of trustees. Mr. Alter stated that board needed to play an oversight role to the Office of the Chancellor which, he added, could be as simple as asking the system office to justify its staffing and expenditure levels. Mr. Nobles stated that the oversight ought to be exercised as a collective body. He stated that the board of trustees had good mechanisms in place, with its committees and subcommittees, for providing the necessary oversight.

Trustee Van Houten stated that the board had a statutory assignment to approve programs of education, but had delegated that responsibility to the chancellor. He further stated that programs had been defined by board policy as a collection of courses. He stated that currently the Minnesota State Colleges and Universities did not review programs at the course level prior to approval. Trustee Van Houten expressed concern that there ought to be some general guidelines to make ensure that the campuses are reviewing the courses within a program of study, which may eliminate the expectation that each professor would have his or her own syllabi.

Trustee Dickson asked if smaller institutions typically answered questions about services like the development office differently than the larger institutions. Mr. Alter stated that they had asked presidents to list the three most essential things that the central office did and the three least essential things. He stated that the majority of the presidents defined development, and the activities of the development office, as being among the least essential functions. He added that this response did not necessarily mean that the presidents wanted to eliminate the development division, but there was a feeling that was quite strong, that the value hadn't been there. Mr. Alter added that the only place in the report that referenced the break out between universities and colleges was the view of the overall size of the central office. More state universities presidents indicated that they would like to see a smaller system office. He added that generally the larger institutions thought they could do some of the centralized services themselves. However, he added that in questions about the effectiveness and efficiency of particular functions, there was less division by type of institution. Ms. King added that larger institutions often share the perception that services provided by the central office do not benefit them, because they are subsidizing the services for smaller colleges.

Trustee Rice noted that 78% of presidents said that they did not believe that the central office had not given sufficient consideration to consolidating institutions. Mr.

Alter stated that there benefits for campuses to jointly administer certain functions. Mr. Nobles added that the consolidations at the campus level had created efficiencies that were both substantive and perception. Ms. King added that presidents were not suggesting that some campuses be closed. Mr. Nobles agreed and stated that there may be efficiencies to be gained by regionalization of services. He further noted that new technology opened up more possibilities.

Trustee McElroy stated that half of the budget for the Office of the Chancellor is information technology. Decentralization of information technology may have cost more, but would have made the Office of the Chancellor appear smaller. Mr. Alter agreed and stated that some other states had no centralized information technology services, while other states like Georgia had an enormous information technology staff. Mr. Nobles stated that information technology may be one of the primary mechanisms to pull the colleges and universities together into a cohesive system with one platform for registrations, student records, and a variety of other functions that tie all colleges and universities together. He added that there was pressure to ensure that that the dollars allocated to information technology was used effectively and efficiently.

Trustee Rice noted that 56% of the presidents rated the board's performance as fair or poor, but then later in the report 84% of the presidents indicated that the board had done an excellent or good job of defining mission and in setting strategy. Mr. Alter stated that presidents indicated that the system leadership had done a good job defining a mission for the system, setting broad goals, and even moving beyond that to identifying strategies for implementing those goals. He added that in some cases the presidents did not agree with the measures against which they would be judged in a given year, and he further stated that there had been some frustrations that the measures and targets were not always finalized until some months into the calendar year. He indicated that issues like that may have driving the responses.

Mr. Asmussen stated that the report contained a list of possible services to be considered for greater centralization and he asked if there were services on the list that should have greater prominence. Mr. Alter stated that the list had been developed from issues that had been brought forth by multiple presidents. He stated that they would need to be further explored to determine the feasibility of each option.

Ms. Gail Olson, General Council, asked if negative viewpoints expressed in the report could have come from the same few people. Mr. Alter stated that that had not been the case. He stated that the variation in ratings by the presidents indicated that they had been thoughtful in their responses about specific services.

Ms. Carolyn Parnell, Chief Operating Officer, asked if the presidents answered the survey on their own if they consulted with their staff for their perspective as well. Mr. Alter stated that presidents had been specifically asked to consult with their staff in responding to the survey. He added that in addition to the presidents survey, the Office of the Legislative Auditor had done some additional surveys that were less

formal in structure, but that reached out to chief academic affairs officers or to chief information officers on the campuses.

Trustee Thiss thanked the Office of the Legislative Auditor for their hard work and he added that the report was valuable and the audit committee would send recommendations to the board chair for specific issues to be sent to the correct committees for further discussion. Trustee Thiss outlined the major categories of findings.

1. Oversight responsibilities – management and board policy
2. Information Technology
3. Organization for efficiency and effectiveness - regionalization, accountability measures, centralized function
4. Easily addressed issues – directed to committees or departments for immediate resolution
5. Student related items – broader concepts that need to be addressed.

Trustee Thiss stated that the role of audit committee would be ongoing, so that by June 2011, meaningful progress would have been made. He added that they would report back to the Legislative Audit Commission as well.

Chancellor McCormick offered assurances that the system was committed to continuous improvement. He assured the committee that work had already begun on some of the ideas and that each of the recommendations would be given careful consideration. He thanked the Office of the Legislative Auditor for their good work.

2. Update on the Search Process for the Executive Director of Internal Auditing Position (Information Item)

Ms. Lori Lamb, Vice Chancellor for Human Resources, presented a draft position posting which outlined a comprehensive list of qualifications for the Executive Director of Internal Auditing position. She stated that a shortened version of this posting would be used to post the position in various publications and websites.

Members of the audit committee discussed the qualifications and suggested changes. Trustee Thiss expressed the need for the candidate to have some strength in the area of information technology as well as some operations experience.

Ms. King stated the importance of having experience with big complex systems or multi-site organizations. Trustee McElroy agreed. Ms. Olson pointed out that there would be advantages to working with an individual who understand how colleges and universities work. Trustee McElroy stated that the interview and selection process would allow for questions about that type of experience.

Trustee Van Houten stated the most important requirement would audit experience at the manger level. Mr. Asmussen stated that ten years of audit experience, or an equivalent experience, would be appropriate, but added that five years of management in some capacity would be sufficient. Trustee McElroy agreed, and

added that there were compliance officers in other organization that were doing similar work.

Ms. Olson stated that it would be important to review resumes with an understanding of related functions such as compliance. Ms. Lamb stated that a manual resume screening tool would be developed to assist in sorting through the criteria and rating the resumes.

Ms. Lamb stated that Chancellor McCormick had asked Trustee Scott Thiss to chair the search committee and two more trustees would be asked to serve on the committee as well. One member would be from the audit committee and one member would be from another committee. The committee discussed other individuals from the system as well as from the audit community who might serve on the search committee. Ms. Lamb asked members to send her names of other individuals they would like to see added to the committee. Trustee Thiss stated that another audit committee member should be part of the final interview process.

Ms. Lamb gave the committee a list of publications and Web sites where the position would be posted. The committee suggested other sites as well, including some national minority publications. Ms. Lamb stated that she would proceed with posting the position. Trustee McElroy stated that he was impressed with the job posting as well as the long list of publications for posting.

Trustee Thiss discussed the timing of the search process, suggesting that the search committee might meet again in mid-March.

The meeting adjourned at 4:51 p.m.

Respectfully submitted,
Darla Senn, Recorder

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: March 16, 2010

Agenda Item: Select Principal External Audit Firm

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 1.A.2. Part 5, Subpart E charges the Audit Committee with oversight of external auditors. To fulfill that responsibility, it is crucial that the committee select external auditors to recommend for appointment by the full Board of Trustees.

Scheduled Presenter(s):

John Asmussen, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- Kern DeWenter Viere has just completed its three-year contract as the principal auditor for the system. A new contract is needed to engage an external auditor for the next three years.
- Board Policy 1A.2, Part 5, Subpart E. states that “An independent audit firm may not be appointed to a particular engagement for more than six consecutive years.” Kern DeWenter Viere has been the principal auditor for six consecutive years and will not be eligible to bid during this contracting cycle.

Background Information:

- A competitive bidding process began in January to contract with an external auditor to provide System-wide External Auditing Services for fiscal years 2010 to 2012.
- Three firms submitted proposals to a Request for Proposal.

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

BOARD ACTION
SELECT PRINCIPAL EXTERNAL AUDIT FIRM

BACKGROUND

The Audit Committee, pursuant to Board Policy 1.A.2. Part 5, Subpart E, must select the external auditing firms to recommend to the full Board of Trustees for appointment. The firm of Kern DeWenter Viere has served as principal system auditor for six consecutive years and is not eligible to be reappointed. Board Policy 1A.2, Part 5, Subpart E. states that “An independent audit firm may not be appointed to a particular engagement for more than six consecutive years.”

The Executive Director of Internal Auditing and the Vice Chancellor – Chief Financial Officer have led the process to identify an external auditing firm that the Board of Trustees could appoint to the role of principal system auditor. A request for proposals (RFP) was published in the State Register on January 25, 2010. The RFP sought external auditing firms interested in providing System-wide External Auditing Services for fiscal years 2010 to 2012. The deadline for submitting proposals was February 25, 2010.

Three public accounting firms responded to the RFP and submitted proposals. The proposals were reviewed by representatives of the Office of Internal Auditing and the MnSCU Finance Division. This group evaluated the proposals based on the selection criteria cited in the RFP.

Based on the review group’s consideration of the selection criteria, it recommends that the firm of LarsonAllen be appointed to serve as principal system auditor for fiscal years 2010 to 2012. LarsonAllen has provided external auditing services for several System colleges and universities over the past years. They have consistently provided high quality services to the System. Also, the price quotation in their proposal was 20% lower than the prices quoted by the other two firms.

RECOMMENDED COMMITTEE ACTION

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

RECOMMENDED BOARD OF TRUSTEES MOTION

The Board of Trustees approves the appointment of LarsonAllen to serve as principal external auditor for the Minnesota State Colleges and Universities. The principal auditor is responsible for providing audit services of the following:

- System-wide financial statements,

- Revenue Fund financial statements, and
- Federal Financial Assistance.

The term of this appointment begins upon execution of contracts and shall continue to fulfill external auditing needs for the three fiscal years from June 30, 2010 through 2012. The Board of Trustees authorizes the Executive Director of Internal Auditing and the Vice Chancellor/Chief Financial Officer to negotiate contracts with LarsonAllen consistent with the terms contained in its proposal dated February 23, 2010.

Date Presented to the Board of Trustee: March 16, 2010

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: March 16, 2010

Agenda Item: Review Results of Annual Student Financial Aid Audit

- 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 charges the Audit Committee with overseeing the work of external auditors.

Scheduled Presenter(s):

Beth Buse, Deputy Director, Office of Internal Auditing
Christopher Halling, System Director for Financial Aid
Steve Wischmann, Partner with Kern, DeWenter, Viere, Ltd.

Outline of Key Points/Policy Issues:

- The audit report contains three administrative findings and two isolated compliance findings related to certain federal financial aid regulations.

Background Information:

- Federal law requires an annual audit of major federal financial assistance programs, including the student financial aid programs.
- MnSCU received \$216 million in federal grants and students borrowed over \$559 million of federal loans in fiscal year 2009.
- The firm of Kern, DeWenter, Viere, Ltd. conducted the audit as part of its responsibilities as principal auditor for MnSCU.

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

BOARD INFORMATION
REVIEW RESULTS OF ANNUAL STUDENT FINANCIAL AID AUDIT

BACKGROUND

Copies of this report have been provided to members of the Board of Trustees in advance of the March 16, 2010 meeting. These materials will also be made available to the public at the March meeting. The report was prepared by the firm of Kern, DeWenter, Viere, Ltd. as part of its responsibilities as principal auditor for the Minnesota State Colleges and Universities. The results of this report will be incorporated into the State of Minnesota's Single Audit Report that will be released at the end of March. Copies of that report will be available at the end of March on the Minnesota Management and Budget web site at (<http://www.finance.state.mn.us/fin/acct>).

Date Presented to the Board of Trustees: March 16, 2010

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: March 16, 2010

Agenda Item: Preliminary Review of Policy 1D.1

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.1, Part 6, Subpart H, has established that each board policy and system procedure is to be reviewed at least once every five years.

Scheduled Presenter(s):

John Asmussen, Executive Director for Internal Auditing

Outline of Key Points/Policy Issues:

- Policy 1D.1, Office of Internal Auditing, was approved in July 2000 and last reviewed in 2005.

Background Information:

- Board Policy 1A.1, Part 6, Subpart H, requires that policies are reviewed at least once every five years.

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

BOARD INFORMATION
PRELIMINARY REVIEW OF POLICY 1D.1

BACKGROUND

Board Policy 1A.1, Part 6, Subpart H, has established that each board policy and system procedure is to be reviewed at least once every five years. This purpose of this review is to:

1. assure contemporary and responsible business practices are maintained
2. assure the system's current financial and operating control mechanisms are sustained or strengthened
3. assure continuity of operations
4. clarify conflicting or misunderstood information
5. eliminate redundancy

Policy 1D.1, Office of Internal Auditing, was approved in July 2000. It was reviewed last in 2005. In its January 2010 annual report, the Office of Internal Auditing reported that an internal quality assessment had revealed some aspects of Board Policy 1.D.1 that needed updating due to recent changes in the In. As an example, one of the new standards issued, *Standard 1010 - Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter* requires that the mandatory nature of the definition of internal auditing, the Code of Ethics, and the Standards be recognized in the internal audit charter.

Also, the office eliminated its consulting services in the past year. That change may need to be cited the revised policy.

A copy of the current board policy is attached for review and discussion at the Audit Committee meeting.

Date Presented to the Board of Trustee: March 16, 2010



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.

- 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 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

Date and Subject of Revision:

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: March 16, 2010

Agenda Item: Follow-up to the OLA's Evaluation of the System Office

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

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

Board Chair David Olson has assigned certain responsibilities to the audit committee for addressing the findings cited in the February 2010 program evaluation conducted by the Office of the Legislative Auditor *MnSCU System Office*.

Scheduled Presenter(s):

John Asmussen, Executive Director for Internal Auditing

Outline of Key Points/Policy Issues:

- This report was publicly released on Tuesday, February 9, 2010.
- The Office of the Legislative Auditor presented the findings to the audit committee on February 10, 2010.

Background Information:

- The evaluation was requested by the Chancellor and the Board of Trustees Chair, and it was authorized by the Legislative Audit Commission.

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

BOARD INFORMATION

FOLLOW-UP TO THE OLA'S EVALUATION OF THE SYSTEM OFFICE

BACKGROUND

On February 10, 2010, the audit committee met with Legislative Auditor Jim Nobles and his staff to review and discuss their program evaluation report, *MnSCU System Office*. Based on that discussion, the Audit Committee Chair made several recommendations to the Board Chair on how to address the report findings. In a letter to the members of the Board of Trustees dated February 17, 2010, Board Chair David Olson acted on those recommendations and assigned responsibilities to the board committees for addressing the findings cited in the report.

The audit committee assumed responsibility for the following tasks (excerpted from Chair Olson's February 17, 2010 letter):

- **Students First: Improve services to students.** The Legislative Auditor cited two fundamental concerns that centered on services to students: (1) facilitating the transfer of course credits and (2) creating a seamless student services environment. The system has several initiatives already underway that will address these concerns, many of which are bundled in the Students First project. In addition, the Office of the Chancellor has been assisting the student associations with administering a survey of students about their experience with transferring credits. We are not certain to what extent problems with credit transfers are perceived or real. To gain a better understanding, we need to review the preliminary findings from the student survey in March and then gather additional information from faculty, staff, and administrators, as needed. Accordingly, I have asked the Audit Committee to oversee a more comprehensive study of credit transfer and report its findings to the full board by our May meeting. *Responsibility: Audit Committee.*
- **Board Oversight: Strengthen oversight of the Office of the Chancellor.** The Legislative Auditor cited this issue as a specific recommendation and provided more direction in a second recommendation regarding measuring administrative productivity and efficiency against reasonable benchmarks. Because of the unique functions delivered by each division of the Office of the Chancellor, the recommendation needs to be addressed division-by-division. Accordingly, I would like each board committee to develop recommended measures and benchmarks for the divisions assigned to it. The Executive Committee will consolidate these recommendations into a cohesive oversight plan. *Responsibility: Executive Committee coordinates work of all other board committees.*
- **Monitoring Progress:** To ensure timely resolution of the findings and recommendations, the Audit Committee will monitor progress and provide monthly updates to the Executive Committee. Also, the committee will prepare a progress report to be shared with the Legislative Audit Commission in January 2011.

The audit committee chair intends for the committee to discuss these issues and develop a framework for addressing them.

Date Presented to the Board of Trustee: March 16, 2010