

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE
MEETING MINUTES
June 22, 2011**

Audit Committee Members Present: Trustees James Van Houten, Chair; Christopher Frederick, Philip Krinkie, Dan McElroy, Thomas Renier, and Michael Vekich.

Audit Committee Members Absent: Trustee Alfredo Oliveira.

Other Board Members Present: Trustees Duane Benson, David Paskach, Louise Sundin and Scott Thiss.

Others Present: Chancellor McCormick, Beth Buse, Laura King, Gail Olson, and President Pat Johns.

The Minnesota State Colleges and Universities Audit Committee held its meeting on June 22, 2011, at Wells Fargo Place, 4th Floor Board Room, 30 East 7th Street in St. Paul. Chair Van Houten called the meeting to order at 10:02 a.m. and reviewed the agenda.

Approval of the Audit Committee Meeting Minutes

Chair Van Houten reviewed the highlights of the May meeting minutes. He called for a motion to approve the May 17, 2011 audit committee meeting minutes. There was no dissent and the motion carried.

Trustee Van Houten asked that the sequence of agenda items be reordered to allow President Collins and President Anderson to address the committee first.

1. Audit Finding Resolution Update: Northeast Higher Education District and Fond du Lac Tribal and Community College

Ms. Beth Buse, Executive Director of Internal Auditing, reminded members that the committee had seen a report on the status of outstanding audit findings in March, and at that time there were two colleges that have a number of findings that remained outstanding. The committee had asked that those two presidents return to the committee with an update on the resolution of the outstanding audit findings. Ms. Buse introduced Northeast Higher Education District President Sue Collins.

President Collins reported that all but two of the thirty-two audit findings at the Northeast Higher Education District had been resolved to the satisfactory progress level. She stated that the college was doing all that could be done to resolve the two remaining findings. Ms. Buse agreed with President Collins' status of the findings

Trustee Van Houten asked if the college was considering outsourcing any of their activities in the future. President Collins stated that they were considering involvement in the Campus Service Cooperative.

Chancellor McCormick stated that it had been very challenging situation and he applauded the president for displaying a strong leadership presence. Trustee Van Houten congratulated the President and her staff for the work that had been done.

Ms. Buse introduced Fond du Lac Tribal and Community College President Larry Anderson. She reminded members that the college had five findings that were in unsatisfactory progress, one of which was a critical finding that had been outstanding for several years.

President Anderson stated that all but one of their findings had been resolved, and that the remaining critical finding was in satisfactory progress. He stated that the college had worked hard to put controls in place in the bookstore that would resolve the critical finding. Because of the time of year, testing had not been done yet, but President Anderson assured the committee that the controls were in place to correct the critical finding. Ms. Buse concurred with President Anderson. She informed the committee that the critical audit finding would remain open until fall when testing could be done to ensure that the new procedures that were implemented within the bookstore provided controls that would be sustained.

Chancellor McCormick stated that Fond du Lac Tribal and Community College would be reviewed by the Higher Learning Commission for accreditation on August 26, 2011. He stated that he believed the college was ready and the review would go well. He suggested that it would be helpful to the college if Trustee Renier were to represent the Board of Trustees at that important event.

Board Chair Thiss asked Trustee Renier if he would be available to attend Higher Learning Commission visit at Fond du Lac Tribal and Community College. Trustee Renier agreed and said that he would be happy to represent that Board of Trustees at the event.

2. 2011 Office of the Chancellor Performance Report - Internal Auditing Division
(Information Item)

Ms. Buse stated that a version of this report had been presented for the first time in 2010 and that trustees would be hearing performance reports from each division as part of the committee meetings.

Ms. Buse stated that fiscal year 2011 had been a year of transition for the Office of Internal Auditing. She reminded members that she took her position as Executive Director in July 2010 and Mr. Eric Wion started as the Deputy Director in November 2010. The new Information Technology position was vacant in fiscal year 2011 which was reflected in the lower office costs. Ms. Buse reminded members that salary savings from this fiscal year would be used to kick start the information technology audit strategy in fiscal year 2012.

Ms. Buse highlighted some of the key activities for the year. Ms. Buse stated that the activities for the coming year would be discussed further in the next agenda item.

3. Report on Committee Goals (Information Item)

Ms. Buse reminded members that the Audit Committee's goal was to complete a thorough evaluation of the audit approach based on a risk assessment, to consider the value and role of obtaining annual financial statements for individual colleges and universities and to determine a strategy for an information technology audit approach. Ms. Buse explained that they would discuss these objectives further in the next agenda item.

4. Audit Planning Related to System-wide Risk Assessment

Ms. Buse reminded members that there were contracts in place for financial statement audits of the system and the thirteen largest colleges and universities for fiscal year 2011. Ms. Buse stated that contracts for seven college and university audits would expire in January, and she planned to come back in the fall to have a discussion with the committee about the future of those audits.

Ms. Laura King, Vice Chancellor for Finance, stated that as the conversation developed around new audit planning, it would be important to have a good understanding of what standards of assurance the Board was looking to achieve, and that the plan would aim for those assurances.

Ms. Buse highlighted the committee goal to develop a plan for internal control and compliance audit coverage. She stated that the Office of the Legislative Auditor was no longer contracted to do cyclical internal control and compliance audits on the non-financial statement audited colleges, and it would be important to determine what type of coverage the Board wanted over internal controls. She stated that there had not been any internal control and compliance coverage of the non-audited colleges in fiscal year 2011. But she noted that the Office of the Legislative Auditor was conducting an internal control and compliance audit of Metropolitan State University, and that they planned, for as long as their resources were available, to continue to have an audit presence within the system.

Ms. Buse stated that there would also need to be an information technology audit strategy. She pointed to the update given earlier by the Technology Committee on the security program, and explained that an information technology audit strategy would help ensure that controls were in place to ensure confidentiality, integrity and availability of systems. It would provide assurance to the Board and to system leaders that security program controls work as they were intended.

Finally, Ms. Buse outlined the core assurance services area of the audit plan. She stated this included follow-up on outstanding audit findings, support to external auditors, fraud inquiry and investigative services, and systemwide audit work on topics selected by the Board.

Trustee Van Houten stated that Chancellor Designee Rosenstone would likely have some area of interest that he would like to have explored. He added that there was enthusiasm building for the Campus Service Cooperative and when those functions were all consolidated it would be helpful to have an external view to ensure that those services were working as they were intended.

Chancellor McCormick agreed and stated that the system had benefited by having an internal auditing group that was available to look into issues for his office, and for the presidents, as well as for the Board.

Ms. Buse discussed some of the results from the audit risk assessment. She noted that the system was in a heightened level of risk because of staff turnover and fewer resources. She added that management and senior leadership was working to address those risks through the initiatives such as the Campus Service Cooperative and succession planning conversations, but those initiatives were still in progress.

Ms. Buse noted areas that had been highlighted in discussions with leadership where audit work might provide value.

Trustee McElroy noted that a major change was occurring in the area of financial aid administration with the move to direct lending from bank lending. He asked if moving to direct lending would add risk, subtract risk, or change risk. Ms. Buse stated that it would likely change the risks that were involved. She noted that the Campus Service Cooperative and Students First were involved to help streamline and lessen the risks. Ms. Buse added that the Office of Internal Audit could provide some assurance to answer that question more specifically in the future. Ms. King noted that she thought the analysis that had been done at the time of the conversion indicated that moving to direct lending would lower risk. Trustee McElroy thought that it might be helpful to see the work papers and Vice Chancellor King said that she would provide them.

Trustee Van Houten asked if there were concerns with the LarsonAllen audit because the sampling sizes were small. He noted that in his conversations with LarsonAllen they had assured him that the sampling was large enough to identify common problems. Trustee Van Houten asked if a different approach would be optimum. Ms. Buse stated that LarsonAllen approach was different from past approaches, but she added that the firm had audited student financial aid for many colleges and universities across the country, so she was cautiously optimistic.

Ms. Buse continued by reviewing some additional information related to the financial risk assessment.

Trustee McElroy noted that that five of the seven state universities were at high risk. Ms. Buse explained the factors that went into determining risk levels, which included whether or not and institution had had a recent internal control and compliance audit, operating gains and losses, composite index levels, materiality of financial transactions, and key staff turnover. She noted that Southwest Minnesota State University was scored highly because of their financial condition. She also noted that state universities would have more points because of the materiality of their financial transactions and the complexity of the operations.

Trustee Van Houten noted that when an operation was large enough to present a material risk if mishandled, then the formula would always pull those institutions near the top. He noted that the combination of size and not having a recent control and compliance audit, would always bring state universities close to being pulled into targets for the control and

compliance audits, but he added that it had been implied that those decisions would be made separately. He thought in that way the formula might bias the committee in a way that would cause them to make a policy decision that could be inappropriate.

Ms. King agreed and added that the formula might be weighted toward the amount of time since the last internal control and compliance audit and the number of findings. She stated that she would hope the committee discussion would help with strategic design decisions on the basis of the board's assurance policy. She stated that the historical pattern had been to pay for financial integrity and financial control integrity, and to pay less for internal control and compliance integrity. Ms. King stated that she was very pleased with the tool generally and she added that she thought it was a great way to parse out a large complicated system and objectify the risks.

Trustee McElroy expressed concern that a university might have less concern about being on the high risk list if state universities were always on the list. He stated that he would not want to allow the excuse that all universities were high risk and added that although universities were complex institutions, they generally had larger staffs than the smaller colleges and had more opportunity to mitigate risk.

Trustee Van Houten noted that the Office of the Legislative Auditor had conducted internal control and compliance audits at a couple of the universities and there had not been catastrophic findings. Ms. Buse agreed and added that there had been a number of findings in the audit of St. Cloud State University, but that none of them had been classified as critical.

Ms. Buse reviewed the Internal Audit Plan for fiscal year 2012 which was based on the risk assessment and the Office of Internal Audit's preliminary budget. She noted the plan would include the addition of one staff person to focus on internal control and compliance audits. She proposed a hybrid approach to internal control and compliance audits for fiscal year 2012 that would allow for one internal control and compliance audit at Southwest Minnesota State University and then two additional audits in the functional areas of state university payroll and ISRS user level security.

Ms. Buse stated that the Office of Internal Auditing would plan to do a comprehensive information technology audit risk assessment once the resources were in place to conduct that assessment.

Ms. Buse proposed that the Office of Internal Auditing conduct an information technology audit of vulnerability management. She stated that it would be a good place to get base coverage and an understanding of what campuses were doing with the tool and whether that resource was being used as intended.

Finally, Ms. Buse stated that the bulk of the resources would be used to continue the core assurance services, which included follow-up on outstanding audit findings, support to the external auditors, fraud and investigations, and time for a systemwide project or the flexibility to look into areas that the new chancellor might want to have reviewed.

Ms. Buse reviewed some of the concerns with the proposed audit approach. She stated that there would be significantly less audit coverage on internal control and compliance

audits. Time for systemwide projects was limited compared to past plans. There would be limited time for leadership requested audits and Ms. Buse noted that she had requests from several system leaders for audit work at their institutions.

Trustee Van Houten asked which areas would get bumped if there were issues that arose in the next fiscal year that would require more time from the Office of Internal Auditing. Ms. Buse stated that internal control and compliance hours had the most flexibility.

Trustee Van Houten noted that there had not been any internal control and compliance audits in fiscal year 2011, and he cautioned that if hours were pulled away from that area in fiscal year 2012, the system would have a two year cycle without control and compliance audits.

Trustee Van Houten reviewed the audit budget proposals.

Trustee Van Houten stated that the one additional staff person would help ensure that some internal control and compliance audit coverage would take place within the system and not get bumped by other important priorities that may come along. He asked how additional work would be accommodated in the future if the addition of one staff turned out not to be adequate.

Ms. Buse stated that if two additional staff were added, she would propose adding an internal control and compliance audit of Anoka Technical College, and adding a functional audit in the area of banking and cash controls because that area was deemed high risk. She would also propose holding more time within the systemwide audits to allow flexibility for additional projects.

Vice Chancellor King noted that some unknown audit investment amount would be still be provided by the Office of the Legislative Auditor as they continued to audit colleges and universities at their own discretion. The Office of the Legislative Auditor was currently conducting an audit of Metropolitan State University.

Ms. Buse agreed and stated that the Office of the Legislative Auditor had expressed their intention to conduct audits of one or two institutions each year as resources were available. That work would provide some additional assurance to the committee, although the committee would not be able to negotiate where it would prefer that coverage be focused.

Trustee Van Houten asked board members who were present and committee members to share their comfort level with the fiscal year 2012 audit plan as it was presented.

Trustee Paskach stated that he thought the plan was very thorough. He stated that the idea of information technology audit capability was important. He noted that the financial statement audits of the largest institutions had worked well in the past and addressed a significant amount of dollars that flowed through the system. He stated that he would support the proposal but that given the limited system resources, he would suggest that the addition of one staff for this fiscal year was the appropriate place to start.

Trustee Frederick stated that he was comfortable with everything that had been presented,

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and he noted that there had been a lot of issues and good conversations that been addressed throughout the last few months.

Trustee Renier stated that his comfort level was very high. He noted that the fact that the committee could spend two hours having a rich conversation that was strategic and planning in nature, as opposed to reactive, was an indicator that things were in very good condition. Trustee Van Houten agreed and stated that the recent positive audits provided the advantage of looking forward.

Trustee Krinkie stated that he was comfortable until something happened to make him uncomfortable. He stated that the positive audit findings seemed to indicate that there were better controls at the institutions. He noted that the challenge would be to maintain those controls going forward. He agreed with the recommendation to add one additional staff person, and stated that decision could be revisited at some future date if issues came up that warranted the need to add additional staff.

Trustee Vekich stated that he was satisfied with the plan as well and would support the addition of one staff person. He stated that he thought some very good work had gone into the proposal.

Trustee Van Houten directed Ms. Buse to prepare the proposed fiscal year 2012 Audit Plan to reflect the addition of one staff person. Ms. Buse stated that she would plan to bring the audit plan back to the committee in July as the only agenda item.

Trustee Van Houten thanked committee members for being prepared for the discussions that had taken place, which added to the richness of the conversations.

The meeting adjourned at 11:51 a.m.

Respectfully submitted,
Darla Senn, Recorder