

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

**Agenda Item Summary Sheet**

**Committee:** Audit Committee

**Date of Meeting:** March 16, 2011

**Agenda Item:** Select External Auditors for Institutional Financial Statement Audits

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):**

Beth Buse, Executive Director, Office of Internal Auditing

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

- The five state universities and one community and technical college covered by this action have just completed three-year contracts with external auditors. New contracts are needed to engage external auditors for the next three years. The scope of these audit services shall include an annual audit of the general financial statements.
- 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.” Baker Tilly Virchow Krause has been the external auditor for St. Cloud State University for six consecutive years and will not be eligible to bid for that university during this contracting cycle.

**Background Information:**

- A competitive bidding process began in January to contract with an external auditor to provide External Auditing Services for fiscal years 2011 to 2013.
- Seven firms submitted proposals to a Request for Proposal.

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

**BOARD ACTION**

**SELECT EXTERNAL AUDITORS FOR  
INSTITUTIONAL FINANCIAL STATEMENT AUDITS**

**BACKGROUND**

Bemidji State University; Minnesota State Community & Technical College; Minnesota State University, Mankato, Minnesota State University Moorhead; St. Cloud State University; and Winona State University have just completed three-year contracts with external auditors. The Executive Director of Internal Auditing and the Vice Chancellor – Chief Financial Officer have led an effort to identify external auditors that the Board of Trustees could select for new three-year contracts. The Board of Trustees holds the ultimate responsibility, though, for selecting external auditors. 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.

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.” St. Cloud State University has had the same auditing firm for six consecutive years. The firm of Baker Tilly Virchow Krause will not be eligible to bid on the same university during this contracting cycle.

The Office of Internal Auditing and the Finance Division prepared a request for proposals (RFP) to solicit interest in these six audits. A copy of the RFP summary was published in the State Register on January 31, 2011. The RFP was distributed to interested public accounting firms. The RFP sought external auditing firms interested in providing systemwide external auditing services for fiscal years 2011 to 2013. The deadline for submitting proposals was February 24, 2011.

Seven public accounting firms responded to the RFP and submitted proposals to some or all of the six colleges and universities. The proposals were reviewed by the Executive Director and Deputy Director of Internal Auditing, the Vice Chancellor – CFO, other key administrators in the Finance Division, and the Chief Financial Officers from the six institutions.

This group evaluated the four selection criteria cited in the RFP, as follows, in developing a recommendation for the Audit Committee:

- **Qualifications** – All seven firms met the minimum requirements cited in the RFP and were eligible to be considered for these engagements. The Minnesota State Colleges and Universities has received external auditing services for the past several years from three

Select External Auditors for Institutional Financial Statement Audits  
 - Revised Agenda Item  
 March 16, 2011

of the proposing firms: Kern, DeWenter, Viere (KDV); LarsonAllen; and Baker Tilly Virchow Krause. The service provided by these firms consistently has been excellent and the review group had no reservations about using these firms again in the future. Three firms, McGladrey & Pullen, BKD, and Brady, Martz & Associates, all presented strong proposals and cited experience with auditing several public and private colleges and universities. Abdo, Eick & Meyers had no prior experience with auditing higher education institutions. However, they did have good experience auditing in the public sector.

- Understandings of the objectives – All seven firms demonstrated a good understanding of the objectives and were considered to be good potential service providers.
- Work Plan – From the perspective of the Office of the Chancellor and the six colleges and universities, the most efficient work plan option was to use two of the firms (KDV and Baker Tilly Virchow Krause) with prior MnSCU audit experience. There would be additional time and effort needed to acclimate a new firm to this process and environment. Furthermore, the review group preferred that the audits be balanced between three firms. Currently, LarsonAllen has the contract for the system audit and four institution audits. To achieve some balance between the three firms, the recommendation is to award two audits to Baker Tilly Virchow Krause and four audits to KDV.
- Cost – The pricing offered by all firms was very competitive for some or all of the audits and presented the review group with options to assemble pricing packages that were at or below the cost of previous audits for the six colleges and universities.

Based on the review group’s consideration of these four selection criteria, it developed the recommendation shown in Table 1 for the Audit Committee to consider. Although not the lowest price option for Bemidji State University and Minnesota State Community and Technical College, the recommendation represents an overall cost reduction for the six recurring college and university audits (as a group, these six audits would cost 12.3% less in 2011 in this contract cycle over the previous one).

Table 1. Recommended Audit Firms for Fiscal Years 2011-2013

College/University	Recommended Firm	3 Year Price (1)	Previous 3 Year Contract	% Change from 2010
Bemidji State University	Baker Tilly	\$102,000	\$103,150	-1.1%
MN State Comm. & Tech College	Baker Tilly	\$85,200	\$86,720	-1.8%
Minnesota State Univ., Mankato	KDV	\$95,000	\$112,500	-15.6%
Minnesota State Univ. Moorhead	KDV	\$94,050	\$103,500	-9.1%
St. Cloud State University	KDV	\$102,600	\$137,300	-25.3%
Winona State University	KDV	\$93,575	\$109,500	-14.5%
Package Price		\$572,425	\$652,670	-12.3%

(1) The Baker Tilly Virchow Krause prices include an estimated \$2,500 for expenses. The KDV proposals included out-of-pocket expenses.

**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 Kern, DeWenter, Viere, Ltd., and Baker Tilly Virchow Krause, LLP to serve as external auditors for six colleges and universities. The firm of Kern, DeWenter, Viere, Ltd. will serve as external auditor for Minnesota State University, Mankato, Minnesota State University Moorhead, St. Cloud State University, and Winona State University. The firm of Baker Tilly Virchow Krause, LLP will serve as external auditor for Bemidji State University and Minnesota State Community & Technical College. The scope of these audit services shall include an annual audit of the general financial statements of the above mentioned colleges and universities. The term of these appointments begins upon execution of contracts and shall continue to fulfill external auditing needs for fiscal years 2011 to 2013.

The Board of Trustees authorizes the Executive Director of Internal Auditing and the Vice Chancellor/Chief Financial Officer to negotiate contracts with Kern DeWenter, Viere, Ltd., consistent with the terms contained in its proposal dated February 22, 2011, and Baker Tilly Virchow Krause, LLP, consistent with the terms contained in its proposal dated February 24, 2011.

*Date Presented to the Board of Trustee: March 16, 2011*