

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE
MEETING MINUTES
March 16, 2011**

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

Audit Committee Members Absent: Trustee Philip Krinkie.

Other Board Members Present: Trustees Duane Benson, Cheryl Dickson, Clarence Hightower, 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 March 16, 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 10:38 a.m. and reviewed the agenda.

Approval of the Audit Committee Meeting Minutes

Chair Van Houten called for a motion to approve the January 18, 2011 audit committee meeting minutes. There was no dissent and the motion carried.

1. Select External Auditors for Institutional Financial Statement Audits (Action Item)

Ms. Beth Buse, Executive Director of Internal Auditing, reviewed the request for proposal process and information about the seven proposals that were received. She noted that Kern DeWenter Viere was the lowest bidder and that they had provided good service to the system in the past. She recommended Kern DeWenter Viere as the firm to audit Minnesota State University, Mankato, Minnesota State University Moorhead, St. Cloud State University and Winona State University. She stated that it was the desire of Bemidji State University and Minnesota State Community & Technical College to continue contracting with the firm of Baker Tilly Virchow Krause. She noted that although the firm was not the lowest cost alternative, they had submitted competitive pricing and consideration was given to the additional costs associated with switching firms, the impact on finance staff and the impact of the Statewide Integrated Financial Tools (SWIFT) implementation that the institutions would be absorbing at the end of the fiscal year.

Finally, Ms. Buse stated that the package price for each college and university contract would be lower than the previous contract cycle. She attributed the favorable pricing to the market, and to the work done by the Minnesota State Colleges and Universities that produced unqualified opinions, and no significant deficiencies or material weaknesses in the previous year.

Trustee Van Houten noted that Kern DeWenter Viere and Baker Tilly Virchow Krause had both been under contract with the system for a number of audits over the years. He asked Ms. Buse to comment on the decision to award bids to these firms versus bringing in a new firm.

Ms. Buse stated that there had been significant discussion between staff from Vice Chancellor King's office and the Office of Internal Audit, as well as with the Chief Financial Officers from the institutions. She noted that at some point it might be desirable to bring in another firm, but because there had been very competitive pricing and because of the work effort that would need to occur on the campuses, it made sense to contract with the same firms for this round of audits.

Trustee McElroy asked if the three auditing firms currently under contract had been the same auditors since the beginning, or if there had been any turnover in auditors over the years. Ms. Buse stated that the college and university audits had been awarded to the same three firms over the years, but that there had been another system auditor during the first three year contract period. Trustee McElroy stated that he would trust the judgment of the recommendation, but added that Minnesota has a number of very good audit firms that could be considered in the near future. Trustee Van Houten agreed and stated that there would opportunity in the near future to either change audit firms or add an additional audit firm to the mix of external auditors.

Trustee Van Houten called for a motion to approve the selection of the External Auditors for Institutional Financial Statement Audits. *Trustee McElroy made the motion, Trustee Renier seconded. The Audit Committee recommends that the Board of Trustees approve the following motion:*

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.

2. Status Report on Audit Findings (Information Item)

Trustee Van Houten began by stating that there would always be a continuous flow of incoming and resolved audit findings. He stated that his concern was for outstanding audit findings that were not being dealt with in a timely way, presented an immediate risk, or an increased number of findings that might indicate an institution or systemic process issue.

Ms. Buse stated that the Chancellor and the board were committed to resolving outstanding audit findings and that the report presented to the committee would show the progress toward resolving audit findings. She reminded members that the goal was to resolve audit findings by the end of the fiscal year.

Ms. Buse stated that each president received a letter that contained a table of audit finding activity for their individual institutions. She stated that as of June 2010, there were 108 audit findings that were outstanding, since then 171 audit findings had been added and 168 were resolved. There were 111 audit findings that remained unresolved.

Ms Buse stated that they broke those 111 findings into two parts; findings that were making satisfactory progress and findings that were making unsatisfactory progress. She explained that campuses that were doing what they were supposed to be doing to resolve particular findings were deemed to be making satisfactory progress. Those included new findings that may have recently been brought to the attention of a campus and were just beginning to be addressed. In other cases satisfactory progress was made when a campus had resolved a finding, but internal auditing held the finding open for a period of time to ensure that the resolution was sustained.

Ms Buse reported that 59 findings were making unsatisfactory progress. She explained that they were either old and had not been resolved, or in some cases, a few that were newer audit findings but were not making adequate progress towards resolution by the institution provided implementation date.

Trustee Vekich stated that it would be helpful to know how many of those 111 findings were old enough to be included in the original 108 findings. Ms. Buse stated that she would add that breakout to future updates. Trustee Vekich asked about the current ages for the remaining audit findings. Ms. Buse stated that as much as 75% of the 59 unsatisfactory progress findings were over a year old, and in some cases, over two years old.

Ms. Buse broke out outstanding findings with unsatisfactory progress by type and by classification. Finally she highlighted the Northeast Higher Education District which had 31 of the 59 outstanding audit findings, the majority of which were over two years old, and she highlighted Fond du Lac Tribal and Community College which had a critical finding that dated back to 2001. She informed members that the presidents from those two institutions were present and prepared to speak to the committee.

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Trustee Van Houten noted that there were three critical findings and he asked which critical findings would fall into which finding type. Ms. Buse stated that one critical finding was a segregation of duties issue and one was a reconciliation issue.

Trustee McElroy asked about the kinds of issues that made up the academic resale programs. Ms. Buse explained that the Office of Internal Auditing had done a report on Auxiliary and Supplemental Revenues. One of the components of that study was to look at academic resale activities and that the outstanding audit findings related to the controls within academic programs that brought in revenues, such as automotive and cosmetology programs.

Trustee Oliveria asked what kind of reasons there might be for findings being unresolved after two years. Ms. Buse stated that she believed staffing turnover caused issues to remain unresolved.

Trustee Van Houten invited President Larry Anderson and Ms. Stephanie Hammitt, Chief Financial Officer at Fond du Lac Tribal and Community College to address the committee.

President Anderson thanked the members for the opportunity to address the Audit Committee. He stated that he had received assistance from the Office of Internal Auditing, the Finance Division, and others within the system office. He further stated that Chancellor had been very specific in his conversations about the audit findings at the college and how they needed to be addressed. He assured the committee that he understood the seriousness of resolving the outstanding audit findings. He stated that in the past two years Fond du Lac Tribal and Community College hired a new Chief Financial Officer and they had gone from thirty-three outstanding audit findings down to five audit findings. He introduced Ms. Stephanie Hammitt.

Ms. Hammitt stated that of the five remaining findings, one had been resolved the previous week, and they had a corrective action plan in place to resolve the remaining four findings by April 15, 2011. She stated that over the last two years they had documented processes and laid out expectations for staff. She added that they were using staff meetings and duty days to give staff an understanding of how audit findings affect the institution and the system. Finally Ms. Hammitt stated that they planned to ask Ms. Kim McLaughlin, Regional Audit Coordinator, to do further testing in May to ensure that the remaining four findings were resolved.

Trustee Van Houten invited President Sue Collins and Ms. Karen Kedrowski, Vice President of Finance and Administration, at the Northeast Higher Education District to address the committee.

President Collins apologized to the committee for number of outstanding auditing findings at the Northeast Higher Education District. She gave the committee her full assurance that the audit findings would be resolved by May 31, 2011 and there would be time for the Office of Internal Auditing to do testing before the June 30, 2011 deadline.

President Collins stated that when she came into the presidency, there were three colleges operating in a deficit, three colleges were on report with the Higher Learning

Commission for their financial ratios, fund balances had been spent down and required reserves were not met. She stated that over the last two years there had been financial work out plans that were required by the Office of the Chancellor and the Higher Learning Commission and there had been significant progress in terms of financial management. She stated that their financial composite index for the district had gone from .39 to 1.89 in 2010 and she stated that she expected continued improvement. President Collins further stated that she had endeavored to secure executive financial leadership for the district. They had a failed search in 2009 for their Vice President of Finance position. In 2010, the position was reposted and they implemented a plan for business services that would restructure the business offices. She stated that she had recently hired Ms. Karen Kedrowski to fill the Vice President of Finance and Administration position.

President Collins assured the Chancellor and the Audit Committee that the Northeast Higher Education District would be in compliance with Board expectations by the deadline. She stated that the plan for restructuring the business offices would aid in their commitment that audit issues would diminish over time because it involved standardization of business practices.

Ms. Kedrowski stated that they had a very aggressive plan to address the thirty-two outstanding findings. She stated that they had already resolved one finding and there were waiting for feedback on a couple more findings before they could be listed as resolved. She stated that they were on track to have work completed on thirteen of the findings by the end of March, another seven findings would be resolved by the end of April, and the balance would be resolved by the end of May. Ms. Kedrowski stated that half of the audit findings were classified as Important and the other half were classified as Low Impact.

Vice Chancellor King invited President Collins to think about whether the COOP could pose part of a solution for them from a business practice standpoint. It would help to eliminate layers of internal control problems, particularly in a multi-campus environment. President Collins thanked Vice Chancellor King for her suggestion.

Chancellor McCormick stated that there had been a structural problem within the Northeast Higher Education District, and that President Collins had significantly changed that business structure. He was confident that those changes would help the college resolve their findings. He credited both President Collins and President Anderson for the work they done to change operations and hire new people to help them drive the agenda.

Trustee Van Houten stated that the Audit Committee would invite both presidents to return give an update at the May meeting.

Finally, Trustee Van Houten outlined several recommendations that had come from questions raised by Trustee Vekich.

- The first recommendation would be to incorporate an aging analysis that would track the amount of time an auditing finding had remained outstanding.
- The second recommendation would be to prioritize audit findings by the type of exception ranging from critical to limited impact.

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- Another recommendation would be to attach an expected completion date to make it possible to quickly identify audit findings that were behind schedule.
- Finally, it would be helpful to include information about whether additional resources were needed or recommended to resolve an audit finding.

The meeting adjourned at 11:22 a.m.

Respectfully submitted,
Darla Senn, Recorder