



**AUDIT COMMITTEE
OCTOBER 18, 2011
10:00 A.M.**

**MCCORMICK ROOM
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 Van Houten calls the meeting to order.

- (1) Minutes of June 22, 2011 (pages 1-7)**
- (2) Approve FY 2012 Audit Plan (pages 8-15)**
- (3) Proposed Amendment to Board Policy 1D.1 Office of Internal Auditing (First Reading) (pages 16-21)
- (4) Review Annual Internal Auditing Report for fiscal year 2011 (pages 22-29)
- (5) Roles and Responsibilities of the Audit Committee (pages 30-34)

Members

James Van Houten, Chair
Phil Krinkie, Vice Chair
Dan McElroy
David Paskach
Michael Vekich

Bolded items indicate action required.

**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,

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

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: October 18, 2011

Agenda Item: Approval of FY 2012 Internal Auditing Annual Audit Plan

- 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 1D.1, part 6, requires the Executive Director of Internal Auditing to present an Audit Plan for each fiscal year.

Presenter at the Audit Committee meeting:

Beth Buse, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- Based on discussions at the May and June Audit Committee meetings, the audit plan presents an overview of how the Office of Internal Auditing plans to use its resources for fiscal year 2012.

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

BOARD ACTION
APPROVAL OF FY 2012 INTERNAL AUDITING ANNUAL AUDIT PLAN

BACKGROUND

According to Board Policy 1.D., Part 6, the Office Internal Auditing must submit an annual Audit Plan to the Audit Committee. The fiscal year 2012 audit plan is attached.

COMMITTEE ACTION:

On October 18, 2011, the Audit Committee reviewed the draft Fiscal Year 2012 Internal audit plan and approved the following motion:

RECOMMENDED MOTION:

The Board of Trustees approves the Office of Internal Auditing annual audit plan for fiscal year 2012.

Date Presented to the Board of Trustees: October 18, 2011

**Minnesota State Colleges and Universities
Office of Internal Auditing
Fiscal Year 2012 Annual Audit Plan**

This document outlines the Office of Internal Auditing annual audit plan. It includes all internal and external audit activities planned for the ensuing fiscal year, as required by Board Policy 1D.1, Part 6. This document contains four sections:

Section I – provides results of audit risk assessment activities.

Section II - provides an overview of how the Office of Internal Auditing plans to use its technical resources.

Section III - describes other monitoring activities.

Section IV – provides an overview of administrative activities that need to occur during the fiscal year.

Section I: Audit Risk Assessment Results

Professional internal auditing standards require the chief audit executive (CAE) to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organizations goals. Guidance on this standard states that the CAE should prepare the audit plan based on the audit universe, input from senior management and the board, and an assessment of risk and exposures affecting the organization.

When a formal enterprise risk management program exists, internal audit is able to leverage the results to limit additional risk assessment. However, a mature process does not exist within the Minnesota State College and University system.

We conducted an audit risk assessment approach that took into consideration enterprise strategic risks, financial risks, and information technology risks.

Enterprise Strategic Risks

Representatives of the Finance Division, Office of Internal Audit, and Office of General Counsel held meetings with various groups of system, college, and university leaders to discuss risk factors affecting the system. Specifically, the team met with:

- 25 colleges that do not have an annual financial statement audit. These meetings were with college leadership and were held in conjunction with Vice Chancellor King’s regional Trends and Highlights meetings.
- Three institutions that have an annual financial statement audit. Meetings were held with leadership from Bemidji State University, Minnesota State University, Mankato, and Rochester Community and Technical College.
- Focused groups from various institutions representing college and university registrars and finance officers.

In addition, the Office of Internal Auditing had focused discussions with the Chancellor, Compliance Oversight Committee, Leadership Council, Interim Vice Chancellor for Academic and Student Affairs, Vice Chancellor of Finance, Vice Chancellor of Human Resources, the three external audit firms and the Legislative Auditor. Finally, the Office of Internal Auditing had two discussions with the Audit Committee to gain their input. In total over 200 system leaders were part of these discussions.

Common themes that came to light in nearly all of the conversations included:

- Difficult economic times the State of Minnesota and the nation are facing and the resulting decline in state support of higher education.
- Loss of knowledge due to turnover of key staff.
- Insufficient personnel in fundamental areas.

Over 40 areas were identified as potential risk areas during discussions with leadership. Possible areas where internal audit could provide audit coverage include: financial aid administration, student & employee safety, online education, employee professional development, and tuition & fee costs – use of differential tuition.

Financial Risks

For the first time, internal audit assessed fiscal risk factors at each college and university, using several risk metrics outlined below:

Metric Category	Factors Measured
Audit (points = 350)	<ul style="list-style-type: none"> • Time since last internal control and compliance audit and the volume of findings • Whether the institution has an annual financial statement audit and the volume of findings from the last audit • Number of outstanding unsatisfactory audit findings
Financial Condition (points = 300)	<ul style="list-style-type: none"> • Operating gains or the size of losses • Composite Financial Index (CFI) • Overall materiality of financial transactions
Business Operations (points = 200)	<ul style="list-style-type: none"> • Change or loss in key personnel, knowledge, or skills • Diversity or complexity of operations • Number of incompatible security access rights
Other (points = 100)	Use of professional judgment to make adjust for significant financial risks that were not part of the model.

The above metrics were assigned a point value for determining an overall ranking for each college and university. The table below shows the overall results of the financial risk modeling of the colleges and universities. Note that the results varied significantly between each institution with the highest total points being 525 and the lowest being 35.

Risk	Results	Number of Colleges and Universities
High	≥ 350	10
Medium	< 350 and > 200	17
Low	< 200	11

This work helped us identify ten potential audit targets with the greatest financial risk, as discussed below:

- 5 universities were included in the top 10. Their scores generally ranked high as a result of material financial activity, large numbers of people with incompatible access, and the length of time since the last internal control and compliance audit. These universities have not had an internal control and compliance audit since 1999 or 2000.
- 5 colleges were included in the top 10. Their scores were generally ranked high due to the volume of past internal control and compliance findings and the number of outstanding audit findings. Four of these colleges had operating losses in 2010 and one has not had an internal control and compliance audit since 2001.

We also assessed financial risk by looking at functional areas. Internal audit and finance division staff considered materiality, past audit issues and transaction volume and complexity when assessing risk over functional areas. We determined the following functional areas to have high risk: banking and cash controls, ISRS user level security, capital assets, financial aid, employee payroll, tuition and fee billing, and grants.

Information Technology Risks

Certain information technology risks were identified during the work done assessing enterprise strategic and financial risks. We supplemented this lists with other information technology risks to identify key areas where audit coverage could provide system leaders with independent assurance:

- Vulnerability and threat management
- Continuity of operations
- Security and integrity of sensitive data
 - Student
 - Employee
 - Credit card
- Banking and vendor controls
- Quality assurance and change management
- Financial aid ISRS module

The Office of Internal Auditing is planning to develop a more comprehensive information technology risk assessment in fiscal year 2012.

Section II: Use of Internal Auditing Resources

For fiscal year 2012, the Office of Internal Auditing has identified the following priorities based on the results of audit risk assessments and available resources, which includes adding one auditor.

Continue core assurance services:

- Coordinate financial statement and federal financial assistance audits: Fiscal year 2011 marks the eleventh year that the Minnesota State Colleges and Universities contracted for an external audit of its financial statements. The external audit firm of LarsonAllen is under contract to provide audit services for the system-wide financial statements, Revenue Fund financial statements, and federal financial assistance. This will be the second year that LarsonAllen provides these services. In addition, audited financial statements are generated for 13 of the largest institutions in the system.

The Office of Internal Auditing is obligated by current contracts to provide staffing support to external auditors for some of these financial audits.

- Monitor progress toward implementing audit findings: It is important that the Board of Trustees, Chancellor, and presidents have confidence that any problems revealed by audits or evaluations receive appropriate attention. Internal Auditing monitors progress toward implementing all audit findings. Internal Auditing provides status reports on prior audit findings to the presidents and vice chancellors in January and June of each year. The Chancellor is informed about any unresolved audit findings as part of the annual presidential and cabinet performance evaluation process.
- Assist with fraud inquiries and investigations: Since the board approved Policy 1C.2 in June 2002, Internal Auditing has worked with the Chancellor's Cabinet and presidential executive teams to implement its provisions. On July 1, 2008, a new Code of Conduct for employees was enacted as Procedure 1C.0.1. In these times of great uncertainty and change, it is reasonable to expect an increase in the number of issues that will require inquiries and possibly investigations. Accordingly, the amount of time reserved for this activity has again been increased in this plan.

Conduct Studies that have Significant System-wide Interest, based on priorities of the Board of Trustees and Chancellor. In past years, Internal Auditing has scheduled a study of a topic of major system-wide interest. Recent studies have focused on undergraduate student credit transfer, auxiliary and supplemental revenues, affiliated foundations and implementation of student success systems. We are not selecting a topic at this time but have reserved some time for a project to be selected after Chancellor-Designate Rosenstone begins in August.

Complete a comprehensive information technology audit risk assessment.

Conduct audits in the following areas:

- Internal control and compliance audit of Southwest Minnesota State University
- Functional area focused audits of state university payroll and ISRS security

- Information technology audit of vulnerability and threat management practices

An information technology audit strategy for the system will also be developed. The Office of Internal Auditing will use consultants to help develop and implement an information technology audit strategy. This would be a onetime resource, using approximately \$100,000 in salary savings from fiscal year 2011.

The table below provides a summary in the use of technical staff resources over the next three years.

Summary of Projected Staff Technical Hour Use for Next Three Years

Audit Area	Estimate 2012	Estimate 2013	Estimate 2014
External Auditor Support (1)	1,480	1,200	-
Follow-up	700	800	1,000
Fraud Investigations	1,300	1,300	1,300
Professional Advice	500	500	500
Other	930	930	930
Information Technology	1,500	1,500	1,500
Financial Internal Control and Compliance	2,000	2,000	2,700
Systemwide Projects	1,100	1,950	2,250
Total	9,510	10,180	10,180

(1) Plan to eliminate staffing support to external auditors as contracts expire.

Section III: Monitoring Other External Audits, Evaluations, and Reviews

In addition to the audit activities discussed in the previous sections, a variety of other external audits, evaluations, and reviews occur. Accordingly, Internal Auditing will monitor the results from the following activities and recommend corrective actions to the Chancellor, presidents, or the Board of Trustees, as warranted.

Audits of Grants and Special Financing Arrangements – Some special grant or other funding sources have certain audit requirements that must be satisfied. State law requires that the Legislative Auditor review any audit contracts prior to their execution. The most common source of these requirements is the Minnesota Job Skills Partnership (MJSP) grants. Because of the volume and routine nature of the MJSP grants, the Legislative Auditor has agreed in the past to permit Internal Auditing to review those audit contracts on its behalf. Other unique audit requirements, such as an audit arranged by Itasca Community College for a housing project financed with bonds sold by a County Housing and Redevelopment Agency, must be submitted directly to the Legislative Auditor for review.

Reviews Conducted by State and Federal Student Financial Aid Authorities – The Minnesota Office of Higher Education conducts periodic reviews of the state grant and loan programs being administered by the colleges and universities. Most colleges and universities are examined once every three years as part of that process. Internal Auditing reviews these reports

to determine whether findings indicate more systemic issues needing attention. Also, the U.S. Department of Education conducts ad-hoc program reviews and investigations of federal financial aid programs. The department schedules its reviews based on a risk assessment process and does not schedule routine reviews of each college and university.

Audits of Affiliated and Associated Organizations – Board Policy 8.3 requires periodic financial audits of affiliated foundations. Also, other related organizations, such as the statewide student associations submit annual audited financial statements to the Office of the Chancellor. Internal Auditing will review these audit reports and determine the need to recommend any action by the Chancellor, presidents, or Board of Trustees.

Section IV: Administrative Activities

In addition to conducting and monitoring audits, there are a several administrative activities the Office of Internal Auditing needs to complete during fiscal year 2012. These include:

External Assessment - In January, 2002, the Institute of Internal Auditors (IIA), the professional organization responsible for promulgating the professional standards for the practice of internal auditing, added *Standard 1312 – External Assessments*. This standard requires internal audit organizations to undergo an external quality assessment review at least once every five years.

In 2007, the Office of Internal Auditing underwent an alternative method to comply with *Standard 1312*, a self-assessment with independent validation. The results were presented to the Audit Committee in March 2007.

To meet the five year requirement, the office needs to undergo an external assessment. Since the office has undergone much transition over the past couple of years, we believe it is important to contract for an external assessment. We believe the feedback and assurance this will provide the Board and senior leadership will be invaluable.

Audit Charter – The Office of Internal Auditing Charter (Board Policy 1.D.1) is not up-to-date and does not reflect recent changes to professional internal audit standards. We plan to work with the Audit Committee in fall 2011 to revise the board policy.

Replacement of Office of Internal Auditing Administrative Systems – Applications used for recording and managing staff time, audit findings, and fraud inquires and investigations are outdated and are difficult to maintain. We plan to assess office needs for administrative systems and replace these systems.

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: October 18, 2011

Agenda Item: Proposed Amendment to Board Policy 1D.1 Office of Internal Auditing (First Reading)

- 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, authorizes the Board of Trustees to enact and amend policies.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- Policy 1D.1 is the Audit Charter for the Office of Internal Auditing.
- The majority of the proposed changes would ensure that we are in compliance with the International Standards for the Professional Practice of Internal Auditing.
- The proposed amendment would remove Part 5c, Consulting Services. There has been a reduction in the type of consulting services Internal Auditing provides due to budget reductions over the past two years.

Background Information:

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

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

BOARD ACTION ITEM
PROPOSED AMENDMENT TO BOARD POLICY 1D.1 OFFICE OF INTERNAL AUDITING (FIRST READING)

BACKGROUND

Board Policy 1D.1 contains the audit charter for the Office of Internal Auditing. Required by Institute for Internal Auditing Standards, the audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The charter establishes the internal audit activity's position within the organization, authorizes access to records, personnel, and physical properties relevant to performance of engagements, and defines the scope of internal audit activities.

The majority of the proposed changes would ensure that the Office of Internal Auditing is in compliance with the International Standards for the Professional Practice of Internal Auditing. The proposed amendment would also remove Part 5c, Consulting Services. There has been a reduction in the type of consulting services Internal Auditing provides due to budget reductions over the past two years.

The proposed amendment was sent out for review and comment to presidents, vice presidents, deans, chief financial officers, chief information officers, human resource officers, student associations and faculty unions, as well as to all Office of the Chancellor staff.

RECOMMENDED COMMITTEE ACTION

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

RECOMMENDED MOTION

The Board of Trustees approves the amendment to Policy 1D.1 Office of Internal Auditing.

Date Presented to the Board of Trustee: October 18, 2011



PROPOSED AMENDMENT

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. The mission of the Office of Internal Auditing is to provide independent, objective assurance and consulting services designed to add value and improve the operations of the Minnesota State Colleges and Universities. Internal Auditing helps the Board of Trustees, Chancellor, presidents, and all other levels of management accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.~~

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. Standards of Practice. Internal Auditing activities will be conducted in compliance with the Minnesota State Colleges and Universities policies and procedures as well as with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics promulgated by the Institute of Internal Auditors.

Part 5. Services. Internal Auditing shall be an advocate to improve and maintain accountability and promote the proper management oversight of ~~system office the Office of the Chancellor,~~ 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 Office of the Chancellor.~~ It has particular expertise in topics such as auditing, accounting, internal controls, financial risk management, and ~~organizational development information technology.~~ 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) design and effectiveness of information technology security controls, or (6) 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, offering workshops and inservices on-site or via technology such as webinars or seminars.

Part 56. 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~~ implement 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 67. 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 an annual audit plan based on a system-wide audit 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 78. 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 89. 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~~ administrators, 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 ~~57~~ 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 Adoption: 07/19/00,

Date of Implementation: 07/19/00,

Date and Subject of Revision:

xx/xx/11 – Amended throughout to clean up language and comply with International Standards for the Professional Practice of Internal Auditing. Removed Part 5c, Consulting Services.

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: October 18, 2011

Agenda Item: Review Annual Internal Auditing Report for FY2012, Including Status of Unresolved Findings.

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 1D requires an annual report from the Office of Internal Auditing.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- Internal Audit activities were consistent with the audit plan for fiscal year 2011.
- An update on the resolution of outstanding audit findings for fiscal year 2011 is incorporated into the annual report.

Background Information:

- The audit plan approved by the Board of Trustees in September 2010 provided the foundation for the internal auditing activities carried out in fiscal year 2011.

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

BOARD INFORMATION

REVIEW ANNUAL INTERNAL AUDITING REPORT FOR FY2011,
INCLUDING STATUS OF UNRESOLVED FINDINGS

The annual report for fiscal year 2011 is attached.

Date Presented to the Board of Trustee: October 18, 2011



Minnesota
STATE COLLEGES
& UNIVERSITIES

Internal Auditing Annual Report Fiscal Year 2011

Office of Internal Auditing
Reference Number 2011-10-004

October 6, 2011

October 6, 2011

Members of the Board of Trustees

I am pleased to submit the annual report on the Office of Internal Auditing for fiscal year 2011 as required by Board Policy 1D.1 part 8.

Fiscal year 2011 was a year of transition, new Executive and Deputy Directors were hired and the office was restructured to improve information technology audit capabilities. The office has talented and dedicated professional staff members who take great pride in their work. The office complies fully with the professional practices of internal auditing.

I wish to reiterate my commitment to managing an office that provides you with credible, professional services. Organizationally, the Office of Internal Auditing is structured to ensure its independence by reporting directly to the Audit Committee. Personally, I take great care to avoid assignments or relationships that would compromise my independence. Accordingly, I pledge to you that I continue to remain independent and objective pursuant to the professional practices of internal auditing in my role as Executive Director of the office.

Thank you for your confidence and support in our work.

CONTENTS

2	Assurance Services
4	Fraud Inquiry & Investigation Support
5	Professional Advice
5	Planning
5	Analysis of Staff Hours

Summary

The audit plan approved by the Board of Trustees in September 2010 provided the foundation for the internal auditing activities carried out in fiscal year 2011. Some noteworthy activities included:

- **Staffing changes** – hiring of Executive and Deputy Directors. In addition, the office was restructured to improve information technology audit capabilities.
- **Follow-up** - colleges and universities made significant progress in resolving outstanding audit findings during fiscal year 2011.

The Office of the Chancellor made significant progress on findings cited by the Legislative Auditor in its February 2010 program evaluation report, *MnSCU System Office*

- **External Audits** - LarsonAllen, the principal auditor for the system, and two other audit firms gave unqualified (clean) financial statement audit opinions for the system and 13 colleges and universities. Notably, no material weaknesses or significant deficiencies were reported.
- **Inquiries and Investigation** - Internal Auditing saw an increase in the number of fraud incidents reported this year as compared to prior years. Fortunately, there were no significant losses.
- **Audit Planning** - completed an initial audit risk assessment for use in prioritizing audit resources that focused on enterprise, financial, and information technology risks.

*Beth Buse, Executive Director,
had lead responsibilities for this report.*

I. Assurance Services

The Office of Internal Auditing spent the majority of its time working on assurance services which, depending on the scope of the audit, may focus on the quality and reliability of information, legal and policy compliance, and operational efficiency and effectiveness. The following assurance service projects were conducted during fiscal year 2011.

Audited Financial Statements

Audits of fiscal year 2010 financial statements marked the tenth year that the Minnesota State Colleges and Universities contracted for an external audit of its financial statements. The system transitioned to a new principal external audit firm (LarsonAllen). LarsonAllen provided an unqualified (clean) opinion on the system-wide financial statements in November 2010.

At the system-wide level, the external auditor also did not cite any “material weaknesses” or “significant deficiencies.” in internal controls. The auditing literature considers a “material weakness” to be the most serious type of problem associated with an internal control structure, so the absence of “material weaknesses” is a positive indicator. Less serious, but noteworthy internal control considerations are referred to as “significant deficiencies.”

In addition, audited financial statements were developed for 13 of the largest institutions: the seven state universities and six two-year colleges. The financial statements for all 13 institutions received unqualified audit opinions from the CPA firms that the board appointed for the audits. Notably, all 13 institutions had no “material weaknesses” or “significant deficiencies.” in internal controls. This is a significant accomplishment and the first time this has occurred. Normandale Community College should be commended for this accomplishment since it was a first time audit for the college.

The Financial Reporting Unit of the Office of the Chancellor, college and university finance staff, and the Office of Internal Auditing have worked hard to deliver the audited financial statements. Internal Auditing spent 26 percent of its applied hours on assisting with financial statement audits in fiscal year 2011. This level of support provides benefits to the firms by utilizing the expertise of Internal Auditing’s knowledge of the Minnesota State Colleges and Universities system and its business systems.

Financial Internal Control and Compliance Audits

In the past, the Audit Committee and other stakeholders relied on internal control and compliance audits provided through a contract with the Office of the Legislative Auditor to conduct rotating audits of colleges without annual financial statement audits. By mutual agreement, the contractual arrangement with the Legislative Auditor ended after the fiscal year 2010 audits.

Fiscal year 2011 was a year of transition for Internal Auditing and no specific internal control and compliance audits were conducted. Many conversations took place with the Audit Committee and senior leadership on determining the appropriate level of audit coverage for the future of financial internal control and compliance audits.

Follow-up on Prior Audit Findings

The Board of Trustees and Chancellor expect timely resolution of audit findings. Internal Auditing maintains a database for tracking audit findings. Internal Auditing monitors the status of audit findings through resolution. Presidents are provided a mid-year and end-of-year follow-up report. Beginning in 2011, the status report format was revised in order to provide a tool which allows presidents to more quickly identify areas needing their immediate attention. This change resulted in positive feedback. The following table summarizes fiscal year 2011 activity:

College and University Audit Finding Activity Summary – As of June 30, 2011

Unresolved as of July 1, 2010	108
Additions – Fiscal Year 2011	231
Resolved – Fiscal Year 2011	(297)
Unresolved as of June 30, 2011	42

Status of Unresolved Findings

Satisfactory Progress	37
Unsatisfactory Progress	5

Colleges and universities made significant progress on resolving outstanding audit findings during fiscal year 2011. As of June 30, 2011, there were only 42 unresolved audit findings, of those only five were given unsatisfactory progress. The findings in unsatisfactory progress are classified as ‘important’, additional information is shown below.

College and University Audit Findings with Unsatisfactory Progress – As of June 30, 2011

Type	Findings	Days Since Issuance	Days Past Target Completion
User Security - Incompatible Access	2	652	180
Bank Reconciliation	1	244	0
Capital Asset Management	2	620	297

In addition to monitoring progress on college and university outstanding audit findings, Internal Audit also monitored progress on the findings cited by the Legislative Auditor in its February 2010 program evaluation report, *MnSCU System Office*. The program evaluation focused on questions regarding the size and performance of the central administrative office of the Minnesota State Colleges and Universities. Progress was tracked with monthly updates to the Audit Committee. In November 2010, a letter was sent from Chair Thiss and Chancellor McCormick to Senator Ann Rest, along with an enclosure that highlighted that the majority of the recommendations were implemented or in progress to be implemented.

Other Internal Auditing Assurances

The Office of Internal Auditing also provides other assurance services as requested by the board, Chancellor, or presidents. Some recurring projects include:

- Facilitating transition reviews of colleges and universities when there is a change of presidents.
- Limited testing for finance legal compliance of expenses incurred by the Chancellor and Board of Trustees.

II. Fraud Inquiry and Investigation Support

Internal Auditing assists with conducting fraud inquiries and investigations. When evidence of fraud is identified it must be dealt with appropriately. The results of most fraud inquiries and investigations were reported to affected presidents or the Chancellor for action. Board policy requires that only significant violations of board policy or law, be communicated to the Board of Trustees. The Executive Director of Internal Auditing advised the Chair of the Audit Committee about fraud investigations and reported potential fraud incidents to the Legislative Auditor, as required by state law.

Overall, Internal Auditing saw an increase in the number of fraud incidents reported this year as compared to prior years. Although there were no material losses to the organization, it is important to note that policy 1.C.2 requires an inquiry to determine whether evidence of fraudulent or other dishonest acts is substantiated and merits a fraud investigation or other remedy. Where warranted, a fraud investigation must be completed. As a result of the increase in the number of reported incidents, a significant amount of college and university staff time as well as Internal Auditing staff time was dedicated to completing inquiries and investigations. A summary of the types of incidents commonly reported to Internal Auditing were:

- **Theft of equipment or vandalism:** commonly includes the theft of laptop and desktop computers and other information technology equipment such as overhead projectors. College and university campuses commonly see vandalism to their buildings and other property. In most cases, colleges and universities report these incidents to local law enforcement.
- **Financial aid fraud:** in the past few years we have seen a substantial increase in student financial aid fraud primarily at the two year institutions. My office works closely with the Inspector General's Office of the U.S. Department of Education on these incidents.
- **Bank account incidents:** these types of incidents commonly include fraudulent checks being drawn on an account or attempts to gain unauthorized electronic access to an account.

Internal Auditing assisted with other inquiries and investigations primarily centering on allegations of employee misconduct or misuse of property.

III. Professional Advice

Internal Auditing also makes itself available to offer professional advice on topics within its expertise. During fiscal year 2011, Internal Auditing fielded numerous questions dealing with various topics. Common questions pertained to compliance with board policies, system procedures, and best practices.

Internal Auditing representatives also sit on various system task forces and committees, including: Security Steering Committee, Finance User Group, Financial Aid Directors, Chief Information Officers, and Students First working groups.

IV. Planning

In August 2010, the Audit Committee approved the following committee goal for the year:

Complete a thorough evaluation of the audit approach for the Minnesota State Colleges and Universities. The evaluation should:

- *Be based on a risk assessment and include a plan for obtaining internal control and compliance audit coverage given that the contractual relationship with the Office of the Legislative Auditor has ended.*
- *Consider the value and role of obtaining annual financial statement audits for individual colleges and universities.*
- *Determine a strategy for an information technology audit approach.*

Internal Auditing completed a three-staged audit risk assessment during fiscal year 2011 that identified enterprise strategic, fiscal, and information technology risk factors. The results of the risk assessments were discussed with the Audit Committee in May and June. In addition, the results were taken into consideration in building the proposed audit plan for fiscal year 2012.

V. Analysis of Staff Hours

For 2011, Internal Auditing underwent a transition in staffing. The office restructured in order to improve information technology audit capabilities. The majority of professional staff, regional audit coordinators, are located on college or university campuses throughout the system. The audit coordinators serve multiple colleges or universities located in their regions.

Table 1 provides a summary of how internal auditing staff resources were used during fiscal years 2009 through 2011.

**Table 1: Percentage of Internal Auditing Technical Service Staff¹ Hours
Fiscal Years 2009, 2010 and 2011**

Service	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009
Follow-up on Prior Audit Findings	34%	28%	21%
Audited Financial Statements	27%	23%	16%
Internal Control and Compliance Audits	3%	14%	3%
Fraud Inquiry and Investigation Support	17%	11%	12%
System-wide Audits	0%	9%	22%
Professional Advice	7%	8%	7%
Planning	6%	0	0
Other Internal Auditing Assurances	6%	7%	6%
Consulting Services	0	0	13%

The Future

In October 2011, the Board of Trustees will be asked to approve an audit plan for fiscal year 2012 that takes into consideration the results of audit risk assessments and available audit resources. Audit plans and other information on Internal Auditing are available at the office website, www.internalauditing.mnscu.edu.

¹ Excludes executive and deputy director hours.

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: October 18, 2011

Agenda Item: Roles and Responsibilities of the Audit Committee

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

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

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

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- Summary of Board Policies pertaining to the Audit Committee
- Highlights key elements of audited financial statements that audit committee members are scheduled to review at its November 2011 meeting.

Background Information:

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

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

BOARD INFORMATION

ROLES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

BACKGROUND

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

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

- 1A.2 Board of Trustees, Part 5, subpart E
- 1A.4 System Administration Appointment of Administrators
- 1C.2 Fraudulent or Other Dishonest Acts
- 1D.1 Office of Internal Auditing

Board policies are located at (<http://www.mnscu.edu/board/policy/>)

In addition, this training session is intended to prepare members for the process of reviewing the audited financial statements. In November 2011, the audit committee will review the audited financial statements for the MnSCU system, its Revenue Fund, and 13 of the largest colleges and universities. The following pages are a proposed approach for the review of financial statements.

The attached checklist is intended to facilitate the review of those financial statements.

Proposed Financial Statement Review Process
Fiscal Year 2011

Audit	Audit Firm	Audit Committee Members				
		Van Houten	Packach	Krinkie	McElroy	Vekich
Revenue Fund	LarsonAllen	1	1	1	1	1
System-wide	LarsonAllen	2	2	2	2	2
Supplement	Unaudited	2	2	2	2	2
M State	Baker Tilly	1		1	1	1
Century	Baker Tilly	1		1	1	1
Bemidji	Baker Tilly	1	1			
St. Cloud	KDV	1		1	1	1
Mankato	KDV	1	1			
Southwest	LarsonAllen	1	1			
Moorhead	KDV	2	2			
Winona	KDV	2		2	2	2
Hennepin	KDV	2	2			
Normandale	KDV	2		2	2	2
Minneapolis	LarsonAllen	2		2	2	2
Rochester	LarsonAllen	2	2			
Metropolitan	LarsonAllen	2		2	2	2

Review Teams: Van Houten and Paskach
Krinkie, McElroy, Vekich

- 1 - first mailing (November 4th)
- 2 - second mailing (November 9th)

Date Presented to the Board of Trustee: October 18, 2011

Financial Statement Audits Checklist

Introduction

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

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

YES NO

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

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

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

YES NO

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

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

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

YES NO

- Prior Period Adjustments
- Significant joint ventures, alliances, and partnerships
- Contingent Liabilities Resulting from Litigation
- Related Party Transactions
- Subsequent Events.

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