

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: January 17, 2012

Agenda Item: Review External Audit Plan and Approve Any Changes

Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring
 Information

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

According to Board Policy 1A2, Part 5, Subpart E, the Audit Committee oversees the work of external auditors. The audit contracts for seven individual college and university audits have expired.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing
Laura King, Vice Chancellor - CFO

Outline of Key Points/Policy Issues:

- The Office of Internal Auditing and the Finance Division recommend contracting for financial statement audits of seven institutions for two years (fiscal years 2012 and 2013).
- The Office of Internal Auditing and the Finance Division recommend amending the principal auditor contract with CliftonLarsonAllen one year, to expire after the fiscal year 2013 audit.

Background Information:

- The current contract with the principal auditor, CliftonLarsonAllen, requires that the system contract for individual financial statement audits of colleges and universities so that at least 60% of the system-wide financial activity is covered by individual college and university audits.
- There are five colleges and two universities whose contracts have expired. This group collectively accounts for 24% of system assets and system operating expenses (based on fiscal year 2011 data).

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

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| BOARD INFORMATION |
| REVIEW EXTERNAL AUDIT PLAN AND APPROVE ANY CHANGES |

In January 2005, the Board of Trustees approved a Strategic Plan for External Audit Services. The plan provided contracting with CPA firms to conduct annual financial statements audits of the larger colleges and universities. The plan provided that the annual audit of the system-level financial statements would be augmented with the stand-alone audits of twelve colleges and universities. In January 2009, the Board of Trustees approved an amendment to the strategic plan for external audit services; Normandale Community College was added to the annual audit cycle for fiscal years 2010 and 2011. This group of stand-alone audits was intended to account for approximately 60% of system-wide financial activity and, thus, improve the cost-effectiveness of the system-level audit. In addition, the plan included contracting for financial internal control and compliance audits of colleges without financial statement audits through the Office of the Legislative Auditor.

In 2010, by mutual agreement the contractual arrangement with the Legislative Auditor ended. Mr. James Nobles, the Legislative Auditor, challenged the Audit Committee to consider the value and role of obtaining annual financial statement audits for individual colleges and universities. He based his challenge, in part, on questioning whether there were external audiences for whom these audits were prepared. Given limited resources, he wondered whether these resources should be focused on financial internal control and compliance audits.

In October 2011, the Audit Committee approved the Office of Internal Auditing audit plan that includes a new approach for auditing financial internal control and compliance at colleges and universities. This approach is based on an annual audit risk assessment that includes limited college and university audits but rather focuses audit resources on auditing financial internal control and compliance cycles. The current audit plan includes audits of Southwest Minnesota State University, state university payroll, and ISRS user level security.

The contract with the Minnesota State College and University system's principal auditor, CliftonLarsonAllen, LLP, requires that the system contract for individual financial statement audits of colleges and universities so that at least 60% of the system-wide financial activity is covered by individual college and university audits. One year remains on the current three-year contract.

Table 1 shows an analysis of financial activity for the 13 colleges and universities with financial statement audits. The seven colleges and universities with expired contracts accounted for approximately 24% of system financial activity in fiscal year 2011.

**Table 1: Financial Analysis of Colleges and Universities with Financial Statement Audits
(in thousands)**

| | % System Assets | % System Operating Expenses | Institution Net Assets | Institution Operating Expenses |
|--|--------------------------------|--|-----------------------------------|---|
| <u>Contracts expiring after FY 2013 audits</u> | | | | |
| Bemidji State University | 3.76% | 4.24% | 70,296 | 79,160 |
| Minnesota State Community & Technical College | 2.19% | 3.09% | 40,962 | 57,668 |
| MSU, Mankato | 10.70% | 9.93% | 200,101 | 185,430 |
| MSU Moorhead | 5.28% | 5.10% | 98,732 | 95,159 |
| St. Cloud State University | 9.33% | 10.71% | 174,542 | 199,914 |
| Winona State University | 8.45% | 6.77% | 157,979 | 126,342 |
| Subtotal - 1st cycle | 39.71% | 39.82% | 742,612 | 743,673 |
| <u>Contracts that expired after the FY 2011 audit</u> | | | | |
| Century College | 3.02% | 4.21% | 56,443 | 78,617 |
| Hennepin Technical College | 2.19% | 2.96% | 40,895 | 55,246 |
| Metropolitan State University | 3.00% | 3.48% | 56,123 | 65,079 |
| Minneapolis Community & Technical College | 5.27% | 3.99% | 98,484 | 74,517 |
| Normandale Community College | 3.24% | 3.54% | 60,561 | 66,053 |
| Rochester Community & Technical College | 3.61% | 2.87% | 67,451 | 53,505 |
| Southwest Minnesota State University | 3.60% | 2.53% | 67,248 | 47,322 |
| Subtotal - 2nd cycle | 23.91% | 23.58% | 447,205 | 440,339 |
| Total - 13 Stand-alone Audits | 63.62% | 63.40% | \$1,189,817 | \$1,184,012 |

Below are reasons that we recommend that the system continue with financial statement audits for the 13 colleges and universities listed in Table 1 for fiscal years 2012 and 2013.

- The 13 colleges and universities have been on different contractual cycles than the principal auditor, it is difficult to make changes in audit coverage until all contracts are aligned to expire at the same time.
- A number of shared services initiatives are currently being implemented and others are being planned, an evaluation will be necessary to determine where audits are appropriate in the future.
- The change in how the system is obtaining financial internal control and compliance audits was implemented in fiscal year 2012, it is too early to know the impact of this change.

Recommended Next Steps:

To allow for flexibility in contracting for financial statement audits in the future, the Office of Internal Auditing will proceed with the following steps:

- January and February 2012 – The Office of Internal Auditing and the Finance Division will prepare a request for proposal (RFP) to solicit interest from external audit firms for financial statement audits for the two universities and five colleges with expired contracts for fiscal years 2012 and 2013.

The Office of Internal Auditing, Finance Division, and the seven institutions will evaluate the proposals to develop a recommendation to the Board of Trustees. The evaluation criteria will include: qualifications, understanding of objectives, work plan and cost.

- April 2012 – The Board of Trustees will take action on a recommended motion for the appointment of external audit firms for the seven institutions.
- The Office of Internal Auditing and the Finance Division will work with the principal auditor (CliftonLarsonAllen) on amending their contract for one year, to expire after the fiscal year 2013 audit.

Over the next two years the Office of Internal Auditing will:

- Evaluate the impact of changes in the audit approach for auditing financial internal control and compliance of colleges and universities,
- Evaluate the impact to colleges and universities on the shared services initiative,
- Further research practices in other systems across the country. Our research thus far shows that we are unique in how we obtain audited financial statements for the system. We need to further evaluate how systems obtain audit coverage to more fully compare the difference in the external audit approach, and
- Develop alternatives for presidents and other system leaders to discuss and evaluate.
- By January 2014, recommend an external audit plan for the future.

RECOMMENDED COMMITTEE ACTION:

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

RECOMMENDED MOTION

The Board of Trustees endorses the recommendations offered by the Executive Director of Internal Auditing and Vice Chancellor – CFO regarding the next steps for future external audits for colleges and universities.

Date Presented to the Board of Trustees: January 17, 2012