



**AUDIT COMMITTEE
OCTOBER 17, 2012
8:00 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 Krinkie calls the meeting to order.

- (1) **Minutes of June 19, 2012** (pages 1-4)
- (2) Review Annual Internal Auditing Report for FY2012 (pages 5-12)
- (3) Role and Responsibilities of the Audit Committee Members (pages 13-17)

Members

Phil Krinkie, Chair
Ann Anaya, Vice Chair
Brett Anderson
Alfredo Oliveira
Michael Vekich

Bolded items indicate action required.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING MINUTES
June 19, 2012**

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

Audit Committee Members Absent: Trustee David Paskach.

Others Present: Chancellor Steven Rosenstone, Trustee Scott Thiss, Chair; Trustee Brett Anderson, Trustee Duane Benson, Trustee Cheryl Dickson, Trustee Jacob Englund, Trustee Alfredo Oliveira, Trustee Tom Renier, Trustee Louise Sundin, President Pat Johns, and President Edna Szymanski.

The Minnesota State Colleges and Universities Audit Committee held its meeting on June 19, 2012, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Chair Van Houten called the meeting to order at 10:30 a.m. and reviewed the agenda.

1. Approval of the Audit Committee Meeting Minutes

Chair Van Houten reviewed the highlights of the May meeting minutes. Trustee Van Houten reminded members that when the audit plan was proposed, it was agreed that there would be minimal time set aside for special projects this year, but that if additional projects came up during the year, the budget could be revised to accommodate those needs. *Trustee Van Houten called for a motion to approve the May 16, 2012 Audit Committee meeting minutes. There was no dissent and the motion carried.*

2. Approve Annual Audit Plan for Fiscal Year 2013 (Action Item)

Ms. Buse highlighted key points in the annual audit plan for fiscal year 2013. She stressed the importance of flexibility in the plan. She reviewed the core services that the Office of Internal Auditing would continue to provide in the coming year.

Trustee Van Houten asked for clarification of the difference between financial statement audits and internal control and compliance audits. Ms. Buse explained that the object of a financial statement audit was to provide an opinion on the financial statements. She further explained that external auditors gain an understanding of internal controls and complete minimal testing. They do not go into the level of detail obtained with an internal control and compliance audit. Trustee Van Houten noted that it was inaccurate to think that there had not been any audit coverage at colleges or universities that had not received an internal control and compliance for several years. Ms. Buse agreed and stated that an internal control and compliance audit provided assurance that the controls that management had put in place were working as intended, but other audit coverage had been occurring.

Trustee McElroy asked if there would be a need to do an internal control and compliance audit

of the campus service cooperative or if the control and compliance work would occur at the campuses for which the work originated. Ms. Buse explained that decisions would have to be made, but in instances where the work was being done by the campus service cooperative, then the audit could be done at the campus service cooperative. She noted that as work shifts, the audit universe would become more simplified and more audit work would be done at the campus service cooperative rather than at the individual colleges and universities.

Ms. Buse briefly described the functional areas being proposed for fiscal year 2013, and reviewed the proposed information technology audits. Ms. Buse described a new proposal for a capital construction audit pilot. Trustee McElroy applauded the proposal. He relayed information he had about a similar program in the state of Illinois. He noted that capital construction represented large dollar amounts and knowing that it could be audited could improve results for the taxpayers and the institutions. Ms. Buse finished by discussing advisory services, other required audits and the audit committee schedule for 2013.

Trustee Van Houten called for a motion to approve the Annual Audit Plan for Fiscal Year 2013. *Trustee McElroy made the motion, Trustee Krinkie seconded. There was no dissent and the motion carried.*

COMMITTEE ACTION:

On June 19, 2012, the Audit Committee reviewed the Fiscal Year 2013 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 2013.

3. Review Results of University Personnel and Payroll Internal Control and Compliance Audit (Information Item)

Ms. Buse invited Interim Associate Vice Chancellor Sheila Reger to the table and introduced Ms. Melissa Primus the lead audit coordinator for the audit. She thanked the presidents and leadership for excellent cooperation while conducting the audit work.

Ms. Buse provided a brief background and then reviewed the audit objectives, the audit scope and the areas of focus. She stated that controls were generally adequate and for the items tested, universities generally complied with applicable policies, procedures and employee bargaining agreements and contracts. She noted that the report did highlight some areas where there were deficiencies, but overall, the results were very good.

Ms. Buse briefly reviewed the first three findings in the report. She stated that the remaining findings were recommendations where controls could be improved and might add efficiencies to processes.

Trustee Van Houten believed that the first two findings implied the need for system level policies. Vice Chancellor King stated that she did not believe there were policy issues that needed to be addressed, but rather the issues in the first three findings could be addressed

through system procedures. Ms. King stated that this was the first horizontal audit which looked at audit across business cycles at multiple entities. She stated that it was an exciting format from an efficiency and a large conclusion standpoint to be able to see patterns and practices across multiple operating environments.

Trustee Krinkle expressed concerns about the timeliness of notification to the Office of Internal Auditing and to the system office when issues develop. Ms. King stated that there was not a standard which required the Office of Internal Auditing to be notified at the first sign of an error. Ms. King explained that issues develop every day, and the colleges and universities have delegated authority to run their organizations and fix their own problems. She further noted that once it was determined that the errors were not just at a single location, then the Office of Internal Auditing was notified. Trustee Krinkle expressed concern that there was no guidance in place for institutions to know at what point an issue should be raised to the system level. Ms. King stated that in her opinion it was important to first examine what the system office needed to know about and then to determine if the channels were in place to ensure that those issues would be reported. Trustee McElroy pointed out that was a significant difference between an institution discovering an error made locally that they could fix quickly and an error that they might discover in a tool that is distributed systemwide. The expectation would be that those types of errors would be communicated upward very quickly. Ms. King agreed.

Trustee McElroy asked for an explanation of how the error with the Board Early Separation Incentive payouts occurred. Interim Associate Vice Chancellor Reger explained that a spreadsheet was distributed to be used as an estimator for college and university staff to use when working with employees who were considering retirement. The estimator was later used incorrectly as a calculator to determine actual payout amounts for employees. She noted that when that result was first reported it was thought to be very isolated. As more discovery was done, the whole big picture became more clear.

Ms. Reger noted that with issues of potential fraud or misconduct or an indicator of something that requires a deeper look, notification happens very quickly. But the more common employee mistake that can be uncovered and readily fixed, does not have a policy requirement to notify the Office of Internal Auditing. There was a deep understand that these issues involve employee pay, and she noted that it was with anguish when discoveries were made about overpayments or underpayments. Trustee Van Houten commented, however, that in the absence of a policy, there was a lot of individual discretion.

Trustee McElroy stated that notification could be done to the Human Resources division or to the Finance Division as appropriate and not necessarily always to the Office of Internal Auditing. He then asked how the errors would be corrected in terms of recovery, so that the taxpayers would come out whole at the end. Ms. King explained that there were about fifty employees affected by the error for a total in recovery of about \$165,000. She noted that all the errors were correctable.

Chancellor Rosenstone stated that it would be unlikely that a system would ever be able to build or afford to build a process that had zero errors. The question was whether this level of error was within the tolerance of the kind of errors that will be found in any system that could be

built, and secondly, whether the internal control measures were adequate to catch the errors.

Trustee Krinkie agreed, but again noted his concern about the lack of guidance around the issue of notification. Chancellor Rosenstone agreed and noted that to be able to detect whether an error is an isolated error or more systematic, would require that there was a way to aggregate individual errors when they occur to determine if similar errors were occurring in other places.

Ms. Reger noted finally that the issue was being addressed very carefully and systematically. She added that there would be a full report when the issue was concluded.

Trustee Van Houten introduced Professor Don Larsson, president of the Inter Faculty Organization who asked to address the committee. Professor Larsson thanked the committee, Ms. Buse and Ms. Reger for their work on the report. He praised it for content that touched on many issues that have concerned the IFO and individual faculty associations for a number of years. He noted that one of their most consistent complaints has been the lack of consistencies among the seven universities in terms of issues relating to work load and compensations. He stated that he thought this report offered a profound opportunity for the system office to finally grapple with issues in a way that could provide less frustration on the part of faculty members and individual faculty associations.

Mr. Larsson noted that some issues concerned contractual interpretation and those were issues that would need to be resolved through negotiations. Trustee Van Houten commented that he hoped progress could be made in the next year to simplify the contracts and reduce the interpretation difficulties. Trustee Krinkie recommended that members of the bargaining group and management read this audit before they enter into negotiations.

Trustee Dickson praised the audit as a sign of the maturity of the system to be able to do this type of cross system audit work. She expressed excitement about other areas that might benefit from the same type of cross business cycle audit. She noted that more we can standardize practices and make them clear, the easier we make it on overworked staff.

4. Board Committee Goal Update (Information Item)

Ms. Buse gave a brief update on this year's committee goal to research best practices in audit committees. She noted that some of the research had been incorporated into the audit plan that was discussed. Finally she noted that Chancellor Rosenstone would be bringing the risk management discussion to the full board in fiscal year 2013.

Relating to board composition and expertise, Trustee Van Houten noted that there had been a thoughtful decision in the past to hold the audit committee membership to five members with background in audit and finance. He observed that that decision had worked well over the years and he would recommend that practice going forward. Trustee Thiss complimented and expressed his appreciation to Trustee Van Houten for his six years of service on the audit committee and for his efforts as chair of the committee for the last two years.

The meeting adjourned at 11:59 p.m.

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: October 17, 2012

Agenda Item: Review Annual Internal Auditing Report for FY2012.

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 2012.
- An update on the resolution of outstanding audit findings for fiscal year 2012 is incorporated into the annual report.

Background Information:

- The audit plan approved by the Board of Trustees in October 2011 provided the foundation for the internal auditing activities carried out in fiscal year 2012.

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

BOARD INFORMATION

REVIEW ANNUAL INTERNAL AUDITING REPORT FOR FY2012

The annual report for fiscal year 2012 is attached.

Date Presented to the Board of Trustee: October 17, 2012



Minnesota
STATE COLLEGES
& UNIVERSITIES

Internal Auditing Annual Report Fiscal Year 2012

Office of Internal Auditing
Reference Number 2012-10-010

October 9, 2012

October 9, 2012

Members of the Board of Trustees

I am pleased to submit the annual report on the Office of Internal Auditing for fiscal year 2012 as required by Board Policy 1D.1 part 8.

I am proud of the talented and dedicated professional staff members who take great pride in their work. The office conducts audits in accordance 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.

Beth Buse, CPA, CIA, CISA
Executive Director

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

Summary

The audit plan approved by the Board of Trustees in October 2011 provided the foundation for the internal auditing activities carried out in fiscal year 2012. Some noteworthy activities included:

- **Financial Internal Control and Compliance Audits** – three reports were issued during the year that provides assurance to the board and other stake holders.
 - Southwest Minnesota State University
 - Metropolitan State University – OLA audit
 - State University Personnel and Payroll
- **External Audits** - CliftonLarsonAllen, 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 for fiscal year 2011. Notably, no material weaknesses or significant deficiencies were reported for the second year in a row.
- **Follow-up** - colleges and universities continued to make significant progress in resolving outstanding audit findings during fiscal year 2012.
- **Inquiries and Investigation** - Internal Auditing continues to spend a significant amount of time in conducting fraud inquires and investigations. Fortunately, there were no significant losses.

*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 2012.

Financial Internal Control and Compliance Audits

Fiscal year 2012 was the first year in implementing a new¹ approach for obtaining financial internal control and compliance audit coverage. The approach contains a combination of stand-alone institution audits as well as functional area audits. The board and other stakeholders primarily rely on audits completed by the Office of Internal Auditing. The following audits were completed and discussed with the Audit Committee:

- **Southwest Minnesota State University**

In January 2012, the Office of Internal Auditing released an internal control and compliance audit of Southwest Minnesota State University. The report is available on internal audit's website at

<http://www.internalauditing.mnscu.edu/reports/2012-01-001-smsu.pdf>.

The audit scope included fiscal years 2010, 2011, 2012, through September 30, 2011. The report concluded that except for some supplemental receipts, the university generally had adequate internal controls. The report also concluded that, for items tested, the university generally complied with MnSCU policies and finance related legal provisions. The report contained eight audit findings.

- **Metropolitan State University - Office of the Legislative Auditor**

At the January 17, 2012, the Office of the Legislative Auditor released its financial audit of Metropolitan State University. The report is available on the OLA's website at

<http://www.auditor.leg.state.mn.us/fad/pdf/fad1201.pdf>.

The audit scope included fiscal years 2009, 2010, and 2011, through March 31, 2011. The report stated that the university generally had adequate internal controls over major financial activities, such as tuition and fees, employee salaries, and operating expenses. However, the report contained 12 audit findings.

- **State University Personnel and Payroll**

In June 2012, the Office of Internal Auditing released an internal control and compliance audit on state university personnel and payroll. The report is available on internal audit's website at

<http://www.internalauditing.mnscu.edu/reports/2012-06-005-supp.pdf>.

¹ The system no longer contracts with the Office of the Legislative Auditor to complete cyclical internal control and compliance audits on the non-financial statement audited colleges. As resources permit the Office of the Legislative Auditor plans to have an audit presence within the system.

The audit scope included fiscal years 2009, 2010, 2011, and 2012 through December 31, 2012 and included all universities except Metropolitan since they had recently had an OLA audit. The report concluded that generally universities had adequate internal controls over processing personnel and payroll transactions and generally complied with MnSCU policies and finance-related legal provisions. The report contained nine findings and two topics for future consideration for system leaders.

Audited Financial Statements

Audits of fiscal year 2011 financial statements marked the eleventh year that the Minnesota State Colleges and Universities contracted for an external audit of its financial statements. The external audit firm of CliftonLarsonAllen (formerly LarsonAllen) provided an unqualified (clean) opinion on the system-wide financial statements in November 2011.

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 was the second year in a row this has occurred.

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 and monitors the status of audit findings through resolution. Presidents are provided a mid-year and end-of-year follow-up report. Table 1 summarizes fiscal year 2012 activity:

Colleges and universities continued to make significant progress on resolving outstanding audit findings during fiscal year 2012. As of June 30, 2012, there were only 52 unresolved audit findings, of those only two were given unsatisfactory progress. The two findings in unsatisfactory progress are:

- One college as of June 30, 2012 was not current with reconciling its bank account. This finding was classified as ‘important’ and was 90 days past the target implementation date.
- One college as of June 30, 2012 had not been paying all expenses promptly. This finding was classified as “Limited Impact” and was nearly a year past the target implementation date.

**Table 1: College and University Audit Finding Activity Summary
As of June 30, 2012**

	As of June 30, 2012	Previous Year Balances	% Change
Unresolved as of July 1, 2011	42	108	- 61%
Additions – Fiscal Year 2012	154	231	-33%
Resolved – Fiscal Year 2012	(144)	(297)	-52%
Unresolved as of June 30, 2012	52	42	+21%

Status of Unresolved Findings

Satisfactory Progress	50	37	+35%
Unsatisfactory Progress	2	5	-60%

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 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.

Internal Auditing continues to have an increase in the number of fraud incidents reported 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:** includes the theft of laptops, overhead projectors, smart phones, musical instruments, and equipment or inventory from technical college programs.
- **Financial aid fraud:** two year colleges continue to deal with student financial aid fraud cases. Internal Auditing works closely with the Inspector General’s Office of the U.S. Department of Education on these cases.

- **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. We currently have an audit underway to look at banking controls at all colleges and universities.

Internal Auditing assisted with other inquiries and investigations primarily centering on allegations of employee misconduct or misuse of property. Internal Auditing reports internal control issues and recommendations to presidents and other administrators when noted and follows up on the issues.

III. Advisory Services

The Institute of Internal Auditing allows internal auditors to provide advice and guidance to management through consulting or advisory services. These services can be invaluable to management when transforming an area to help ensure that appropriate risks and controls are built in up front rather than waiting until an assurance service engagement. In providing these services, it is important that management is responsible for decisions or actions that are taken as a result of the advice or guidance provided.

Specific areas that the Office of Internal Auditing was engaged in advisory services included:

- **Professional advice** - Internal Auditing makes itself available to answer questions on various topics. Common questions pertained to compliance with board policies, system procedures, and best practices.
- **Task forces and other committees** - Internal Auditing representatives also sit on various system task forces and committees, including: Security Steering Committee, Finance User Group, Financial Aid Directors, and Chief Information Officers.
- **Campus Services Cooperative** – Internal Auditing was actively engaged in the planning activities that took place during the fiscal year.

IV. Planning

Internal Auditing completed a three-staged audit risk assessment during fiscal year 2012 that identified enterprise strategic, fiscal, and information technology risk factors. Notably, this year more emphasis was put on gaining an understanding of the information technology environment. The results of the risk assessments were discussed with the Audit Committee in May. In addition, the results were taken into consideration in building the audit plan for fiscal year 2013.

V. Analysis of Staff Hours

The majority of professional staff, audit coordinators, are located regionally throughout the system (*St. Paul, Minneapolis, St. Cloud, Moorhead, and Hibbing*). The audit coordinators serve multiple colleges or universities located in their regions. In March of 2012, we added an

information technology auditor to the staff. The office underwent reorganization in fiscal year 2011 to accommodate this needed addition. The office currently has a vacant position that we are actively working with human resources on the hiring process.

Table 2 provides a summary of how internal auditing staff resources were used during fiscal years 2009 through 2012.

**Table 2: Percentage of Internal Auditing Technical Service Staff² Hours
Fiscal Years 2009 - 2012**

Service	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009
Internal Control and Compliance Audits	32%	3%	14%	3%
Fraud Inquiry and Investigation Support	22%	17%	11%	12%
Audited Financial Statements	14%	27%	23%	16%
Follow-up on Prior Audit Findings	13%	34%	28%	21%
Professional Advice	8%	7%	8%	7%
Planning	6%	6%	0	0
Information Technology Audits	3%	0	0	0
Other Internal Auditing Assurances	2%	6%	7%	6%
System-wide Audits	0	0	9%	22%
Consulting Services	0	0	0	13%

The Future

In June 2012, the Board of Trustees approved an audit plan for fiscal year 2013 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.

² 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 17, 2012

Agenda Item: Role and Responsibilities of the Audit Committee Members

- 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 2012 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.

Discuss the Roles and Responsibilities of the Audit Committee

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

BOARD INFORMATION

ROLE AND RESPONSIBILITIES OF THE AUDIT COMMITTEE MEMBERS

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 2012, 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.

Discuss the Roles and Responsibilities of the Audit Committee

**Proposed Financial Statement Review Process
Fiscal Year 2012**

Audit	Audit Firm	Audit Committee Members				
		Krinkie	Anderson	Anaya	Vekich	Oliveira
Revenue Fund	CliftonLarsonAllen	1	1	1	1	1
System-wide	CliftonLarsonAllen	2	2	2	2	2
Supplement	Unaudited	2	2	2	2	2
M State	Baker Tilly	1		1	1	1
Bemidji	Baker Tilly	1	1			
St. Cloud	KDV	1		1	1	1
Mankato	KDV	1	1			
Minneapolis	CliftonLarsonAllen	1		1	1	1
Southwest	CliftonLarsonAllen	1	1			
Moorhead	KDV	2	2			
Winona	KDV	2		2	2	2
Hennepin	KDV	2	2			
Normandale	KDV	2		2	2	2
Century	Baker Tilly	2		2	2	2
Rochester	CliftonLarsonAllen	2	2			
Metropolitan	CliftonLarsonAllen	2		2	2	2

Review Teams: Krinkie and Anderson
Anaya, Vekich, Oliveira

- 1 - first mailing (November 2nd)
- 2 - second mailing (November 7th)

Date Presented to the Board of Trustee: October 17, 2012

Discuss the Roles and Responsibilities of the Audit Committee

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 Auditing 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.

Discuss the Roles and Responsibilities of the Audit Committee

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 | |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | Tuition and Fees |
| <input type="checkbox"/> | <input type="checkbox"/> | State Operating and Capital Appropriations |
| <input type="checkbox"/> | <input type="checkbox"/> | Employee Compensation |
| <input type="checkbox"/> | <input type="checkbox"/> | Federal and State Financial Aid Programs |
| <input type="checkbox"/> | <input type="checkbox"/> | Capital Asset Construction and Maintenance |
| <input type="checkbox"/> | <input type="checkbox"/> | Auxiliary Operations, such as bookstores, residence halls, and food services |
| <input type="checkbox"/> | <input type="checkbox"/> | Unrestricted Net Asset Balances (Check the ratios 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 | |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | Prior period adjustments |
| <input type="checkbox"/> | <input type="checkbox"/> | Significant joint ventures, alliances, and partnerships |
| <input type="checkbox"/> | <input type="checkbox"/> | Contingent liabilities resulting from litigation |
| <input type="checkbox"/> | <input type="checkbox"/> | Related party transactions |
| <input type="checkbox"/> | <input type="checkbox"/> | 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.