

MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING MINUTES
April 16, 2013

Audit Committee Members Present: Trustees Philip Krinkie, Chair; Ann Anaya, Brett Anderson, Alfredo Oliveira, and Michael Vekich.

Audit Committee Members Absent: none.

Others Present: Chancellor Steven Rosenstone, Trustee Clarence Hightower, Chair; Trustee Duane Benson, Trustee Alexander Cirillo, Jr., and Trustee Louise Sundin.

The Minnesota State Colleges and Universities Audit Committee held its meeting on April 16, 2013, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Chair Krinkie called the meeting to order at 2:04 p.m. and reviewed the agenda.

1. Approval of the Audit Committee Meeting Minutes

Trustee Krinkie called for a motion to approve the January 15, 2013 Audit Committee meeting minutes. There was no dissent and the motion carried.

Ms. Beth Buse, Executive Director of Internal Auditing, began by giving a brief internal audit update. The State Treasury account balance delayed the finalization of the Audited Financial Statements report by a couple of months. Committee Chair Krinkie had asked for an update on the extra costs that were incurred because of the delay that was imposed on the external auditing firms. Ms. Buse reported that contracts with the external auditors had been amended to include an additional \$40,000 for the delay.

Ms. Buse briefly reviewed the external Quality Assessment report that committee members received in late March. She explained that internal auditing standards require that internal audit divisions undergo an external quality assessment once every five years, and the report meets those requirements. She noted that the external assessment results were favorable. The Office of Internal Auditing generally conforms with auditing standards. There were a few minor continuous improvement opportunities noted, and Ms. Buse stated that she would return to the committee later in the year with some technical changes that were recommended to the audit charter. Trustee Krinkie stated that he had met with the external assessor prior to the review and then again at the exit interview. He thanked Ms. Buse and her staff for their work and for the results of the excellent report.

Finally, Ms. Buse updated the committee on the fiscal year 2013 audit plan. The plan was approved in June 2012. She noted that the office was somewhat behind on the plan but that all approved projects would be underway by the end of the fiscal year and would be concluded in the next fiscal year. Ms. Buse noted that the primary reason for the delays was due to a couple of open positions in the office, but she added that starting that week, the Office of Internal Auditing

would be at full staff. She noted that a number of her staff were present. Trustee Krinkie encouraged the staff to stand and be recognized by the committee.

2. Review Results of Financial Aid Audits

Ms. Buse, introduced Mr. Craig Popenhagen, CliftonLarsonAllen and Mr. Chris Halling, System Director of Financial Aid for the system.

Ms. Buse presented overview material and explained that this was an annual report that was required by federal law and focused on major federal programs. The Office of the Legislative Auditor identified student federal financial aid as the only major federal program for the system in fiscal year 2012. The audit work, which was performed by CliftonLarsonAllen was compiled into a State of Minnesota Single Audit report. Due to the delay that the state experienced in getting their financial statements out, Ms. Buse stated that the final report would likely be issued in May and then sent to the federal government.

Ms. Buse stated that there had been a slight decrease in student financial aid grants, a slight increase in loan dollar amounts, and a decrease in other types of grant programs. She noted that the lower dollar levels were due to the fact that there were no American Recovery and Reinvestment Act (ARRA) funds this year compared to the past two years. Trustee Hightower asked about the trending for federal financial assistance. Mr. Halling explained that in 2010/2011, there were large increases in enrollment, additional ARRA funding, and an increase in the maximum Pell Grant per student. He further explained that in the current year, the increases in funding had flattened out and enrollment was lower. Finally he stated that student loan trends had continually risen.

Trustee Oliveira asked if students were borrowing more because the cost of education was higher or if it was related to personal choices to take more courses than were necessary for their degree plans. Ms. King stated that there was research to support the view that students were borrowing at rates faster than the increase in the cost. The combination of household income changes, family contribution changes, and their own economic status has accelerated loans beyond the rate of growth and tuition costs. Mr. Halling agreed and added that during an economic downturn, there are also students who may be returning for retraining, but are no longer eligible for grant funds because they already have degrees.

Chancellor Rosenstone reminded trustees that the graph indicated total amount of borrowing and that enrollments had surged between 2008-2012. He added that over that same period, tuition as a percent of median family income in the state of Minnesota had remained constant, but the ability of families to contribute to cover the cost, may have declined as a result of the changing economy, and also the number of students who themselves could contribute to the costs declined as a result of the employment rate. He further noted that more students went part time as a result of the financial constraints and as a result of the increasing diverse student population that MnSCU serves, many of whom cannot afford to go full time. Chancellor Rosenstone reminded trustees that those part-time students, who were independent, did not get a share of the state grant program, meaning that dollars that might have been there from a state grant program were not available to them, so they have to go to other sources, like borrowing.

Chancellor Rosenstone stated that of the students who graduated in 2012 with a certificate roughly half of them graduated with no debt. He added that a third of the students who graduated with an associate's degree had no debt, and a quarter of the students who graduated with a baccalaureate degree had no debt. He further added that the median debt for all graduates at the certificate level was about \$3,000, at the associate's level the median debt was about \$8,000, and at the baccalaureate degree level the median debt was about \$18,000.

Chancellor Rosenstone stated that although borrowing had gone up, the level of indebtedness at MnSCU's colleges and universities was nowhere close to the levels being reported in the newspaper. He added that the measures the system had taken in the legislative request to control costs, the investments made toward improving completion rates, which was another way of ensuring affordability, and the steps taken to align the colleges and universities better with high schools around the state, so that more students were getting college credit before they left high school, were all measures that will help with affordability. Finally, he added that the board's position on access to the state grant for working part time students could also have a tremendous impact on reducing the indebtedness of students as they graduate.

Trustee Krinkie asked if it would be possible to have the Chancellor's comments condensed into pocket notes that the trustees could use when discussing the financial aid issue. Chancellor Rosenstone agreed and added that in addition, he would include that of the other higher education alternatives in the state of Minnesota, MnSCU also has the lowest debt of graduating students.

Mr. Popenhagen discussed the results of the audit. He stated that overall it had been a very good audit. They issued a clean opinion on compliance. He reviewed the audit comments and stated they were fairly minor housekeeping findings. Finally, he reported that prior year findings were resolved. Ms. Buse stated that these were fantastic results for the board to receive. She added that the financial aid offices at the colleges and universities had done a great job.

Trustee Krinkie stated that higher enrollments meant more money going through the system, more applications, and more paperwork, so it really speaks to the success of all the staff who were doing an outstanding job.

Mr. Halling added his own acknowledgement of the tremendous work done by the financial aid directors and their staffs. He thanked the presidents and their administrators for making resources available and he acknowledged the assistance from information technology management over the last couple of years to automate some processes that were otherwise risky because of the volume of manual entries. Finally, Mr. Halling acknowledged an aura of helpfulness from one financial office to another. Particularly he recognized Mr. David Vikander, the financial aid director at Southwest Minnesota State University and his staff, who voluntarily stepped in last year with two institutions who were having issues due to staff turnover. Mr. Halling noted that the Campus Service Cooperative made that sort of cooperation possible between colleges and universities.

Trustee Krinkie stated that great audit results don't just happen, it is because of the hard work,

due diligence by everyone on the campuses from the president to the people who are administering the programs. He thanked everyone again for their commitment.

Ms. Buse continued with a brief background on the financial aid work that was done by the Minnesota Office of Higher Education. The work of the Minnesota Office of Higher Education was done at an individual college or university level. She stated that the Office of Internal Auditing did follow-up work on all findings.

3. Review Results of Internal Control and Compliance Audit of Banking Controls

Ms. Buse began by providing background information. The project was approved by the audit committee in the audit plan for fiscal year 2013. It is a horizontal audit, which means that it looks at a specific process across all colleges and universities. The work was led by Ms. Melissa Primus, Audit Project Manager.

Each college and university is responsible for internal controls related to local banking and investment activity. Ms. Buse stated that there were over 130 local bank accounts not including investment accounts. She added that there were over \$1 billion in receipts deposited into local bank accounts before most of it is swept into the state treasury. Ms. Buse noted that in total activity, just under \$2 billion a year flows through local bank accounts.

Ms. King reviewed the organizational structure under statute. The merger statute that established the system back in 1991 gave MnSCU authority to hold receipts out of the state treasury. Other substantial entities in state government have their revenues flowing into the state treasury. Before the merger the state universities had activity that was outside the state treasury, and that relationship persevered in statute when the new entity was organized. She noted that that was unusual in state government, and that was what led to an interest in having the Office of Internal Auditing conduct a review of the internal control and compliance of banking controls. Trustee Krinkie thanked Ms. King for the background information.

Ms. Buse reviewed the objectives, scope and methodology of the audit. Ms. Buse stated that the overall results were that controls were generally adequate and that colleges and universities and the system office generally complied.

Ms. Buse highlighted potential areas of importance over banking controls. Trustee Anaya noted that changeover to wire transfers from traditional check writing transfers creates new and difficult hurdles with regard to fraud and identify theft. She stated that the Minnesota Financial Crimes Taskforce has the ability to give guidance specifically related to internal controls for banks. She stated that some banks are very good at internal controls and access by employees or actual tracking back when fraud was committed, but she cautioned that not all local banks were equipped to deal with what would be coming with regard to the digital age of fraud and identity theft.

Vice Chancellor King thanked Trustee Anaya for her comments. She added that the question about whether the system had become inefficient in its banking practices, in large part because of the burden associated with fraud, was one that would require discussion and thought over the next year.

Trustee Anaya asked if educational loan fraud had been part of the banking controls audit. Ms. Buse stated that fraud had not been within the scope of audit. However, she added that her office was actively engaged in working with the U.S. Department of Education Inspector General's Office. She stated that individual colleges and universities were cooperating and even detecting fraud. But the type of activity, identity theft and education loan fraud, was often part of organized crime, so the Office of Internal Auditing acted as a liaison between the colleges and universities and the USDOE.

Trustee Anderson asked how many independent local banks, outside of the major banks, did the colleges and universities engage. Ms. Buse stated that it would vary. She added that in some cases money was deposited in local community banks because their primary bank did not have a branch in their local communities. In other cases, there might be additional bank accounts at a major bank where a certain aspect of institution funds were kept. Ms. Buse stated that those relationships vary so she could not provide the actual counts on the distinctions between those local community banks versus primary banks. She did note however that only five colleges and universities used community banks for their primary account.

Trustee Benson asked if there were plans for an audit that would look at the investment accounts. Ms. King stated that the footnotes in the annual financial statements contained a risk rating of the investments that were held in local bank accounts. She noted that those ratings referred to controls surrounding the accounting system and employee access and authority reviews. The footnotes addressed the banking relationships and that the investments were allowable under state law, but it did not address the question of investment administration.

Ms. Buse reviewed the other report findings.

Ms. King stated that she liked the horizontal approach to auditing business cycles. She stated that she thought the horizontal approach was a very effective way to leverage limited resources.

Trustee Krinkie agreed and added that the process of these audits were bringing forward a lot of information, and he added that the benefits that the campus cooperative could provide along with the information contained in the audits, could add continuous improvement for the entire system. He expressed his appreciation for the work of all of the people who actually managed the money and made the entries.

Trustee Hightower asked what would happen with the recommendations contained in the report. Ms. Buse stated that her office would continue to track and follow up on the individual recommendations at the colleges and universities. She added that her office would

also work with Vice Chancellor King and her staff to determine an approach to resolve the broader recommendations.

Ms. King added that work had already begun on some of these recommendations and those were noted in her response to the audit. She noted that in some cases, there would need to be conversations at the campus level before there was an understanding of what solution should be instituted. Finally she noted that the legal relationships with the banks would take some time to come to a new model on, but that she planned to roll it into their work plan for the upcoming year.

Trustee Hightower asked if it would be possible to have a categorized list of the recommendations, so that the board would understand which issues they should expect to see coming back before their committees. Ms. King agreed.

Trustee Vekich asked if there was someone who would be looking into the investment piece of the strategy in order to capitalize on some of the opportunities that were noted in some of the recommendations. Ms. King stated that she planned to have conversations within the Chief Financial Officer community. She added that the State Board of Investment might be able to act as an investment manager on behalf of the Minnesota State Colleges and Universities but that would require a statutory amendment to give them that authority.

The meeting adjourned at 3:08 p.m.