

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING MINUTES
January 21, 2014**

Audit Committee Members Present: Trustees Ann Anaya, Chair; Phil Krinkie, David Paskach, and Elise Ristau.

Audit Committee Members Absent: Trustee Michael Vekich.

Others Present: Chancellor Steven Rosenstone, President Edna Szymanski, Trustees Clarence Hightower, Chair; Alexander Cirillo, Duane Benson, Cheryl Dickson, Dawn Erlandson, Maria Peluso, Tom Renier.

The Minnesota State Colleges and Universities Audit Committee held its meeting on January 21, 2014, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Chair Anaya called the meeting to order at 1:04 p.m. and noted that Trustee Krinkie and Trustee Paskach were present by phone.

1. Minutes of October 23, 2013

The minutes of the October 23, 2013 Audit Committee were approved as published.

2. Minutes of December 3, 2013

The minutes of the December 3, 2013 Special Audit Committee were approved as published.

3. Proposed Amendment to Board Policy 1A.2 (Second Reading)

Committee Chair Anaya introduced the second reading of the proposed amendment to Board Policy 1A.2. Ms. Beth Buse, Executive Director of Internal Auditing explained that the proposed changes in the policy language would eliminate the requirement for a mandatory rotation requirement of audit firms. Controls are currently in place to protect the system against risks when using the same audit firm on consecutive engagements. Trustee Krinkie had requested additional information at the first reading. Ms. Buse said that information could be found on page eleven of the Board packet. Chair Anaya asked if the only change was to redact one sentence in Subpart E, 1 (An independent audit firm may not be appointed to a particular engagement for more than six consecutive years.). Ms. Buse said that was correct and referred to page ten of the Board packet where it was stricken.

Trustee Dickson asked why it was beneficial to eliminate the required rotation versus extending the length of time between rotations. Ms. Buse replied that the Institute of Internal Auditors recommends that if there is a required rotation, it should be every ten years. However, she stated that Board policy requires that the Audit Committee oversee the process for selecting independent auditors and that the committee shall select one or more independent auditors to audit system-level or institutional financial statements and recommend their appointment to the board. She added that she felt that the risks were mitigated by the current process in place and that we did not need a required rotation based

solely on the passage of time. Trustee Anaya asked how this plan compares with other higher education systems. Ms. Buse responded that she could not find any other higher education systems that had a required rotation. Trustee Anaya asked if carryover from one year to the next improved efficiency and effectiveness. Ms. Buse stated that by the time a firm begins to understand the complexities of both the Minnesota State Colleges and Universities and the individual institutions as well as working with state government and the foundations, then it's usually time for the required rotation. She added that the system may get more value out of an audit firm by maintaining a relationship longer.

Trustee Anaya called for a motion. Trustee Ristau moved that the Audit Committee recommend adoption of the following motion. Trustee Paskach seconded the motion. The motion prevailed.

RECOMMENDED COMMITTEE ACTION:

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

Based on the review and recommendation of the Audit Committee, the Board of Trustees approves the amendment to Board Policy 1A.2 Board of Trustees.

4. Review and Approve the Financial Audit Plan

Trustee Anaya reminded members that in January 2012, the Board of Trustees requested a study and recommendation for a financial audit plan. Ms. Buse stated that the study included analyzing the continuation of current practices, taking into account objectives, capacity, cost effectiveness and internal control and compliance, risk management strategies and research of practices from other higher education systems.

The recommendations include moving toward a goal to complete an audit of the systemwide financial statements, revenue fund and federal student financial assistance (A-133). There would be a transition period for stand-alone audits of four state universities for FY2014-2016. An enhanced supplement with detail for all 37 colleges and universities would also be provided. The second recommendation would be to increase the number of internal control and compliance audits by three or four, and continue to refine the risk assessment tool used for audit planning.

Ms. Buse presented a comparison of the financial statement audits to internal control and compliance audits, noting they were distinctively different. Ms. Buse also presented a financial risk management summary of the system since the merger which showed the shifts in auditing practices from 1995 to today. In regards to internal control and compliance audits, Ms. Buse reminded the committee that the contract with the Office of the Legislative Auditor to complete these audits of colleges ended in 2010. She stated that the Office of Internal Auditing has been conducting one audit a year.

Ms. Buse stated that there was variability in business practices at every college and university. She noted that the Campus Service Cooperative would help to align those practices, but there was not a timeline or scope in place yet.

The OLA has plans to conduct one internal control and compliance audit every two years, which is less than MnSCU had anticipated.

Trustee Krinkie asked about the cost of Internal Audit staff time related to financial statement audit work. Ms. Buse stated that the cost for audit coordinator support to the external auditors was equivalent to one position per year. She noted that that time would be freed up to work on internal control and compliance audits.

Vice Chancellor King added that MnSCU spends \$1.5 million for external audits annually and of that, about \$200,000 is built into the program for internal audit staff and about \$300,000 for financial reporting staff. This just represents the charge for supporting the financial reporting and financial statement effort. Trustee Krinkie inquired about the cost to each campus. Vice Chancellor King did not have those figures because it had not been surveyed, but she added that it was likely that the internal control and compliance work would touch different campuses differently than the financial reporting work had done.

Ms. Buse reported that she had researched other higher education systems across the country and found that MnSCU's hybrid approach of auditing a portion of the institutions within the system is unique. She added that most systems just had a standalone audit at the system level and did not have any standalone audits of the colleges and universities within the system. Ms. Buse stated that she had consulted the Higher Learning Commission, and they did not think there would be any concerns regarding MnSCU's proposed change in practice.

In surveying campuses, the presidents and the chief financial officers were in favor of completing a systemwide financial statement only and expanding internal control and compliance reviews for colleges and universities, and they generally supported the continued production of supplemental schedules to the annual systemwide financial statements.

President Szymanski stated that internal audit is about identifying risks. She added that she was thrilled that Minnesota State University Moorhead would be undergoing an internal control and compliance audit this year, which was their first in over ten years. President Szymanski explained that the presidents had received a survey of questions to discuss with their Chief Financial Officers about the proposed changes to the audit approach. Ms. Buse added that in addition to the survey, the audit recommendation was presented to and supported by Leadership Council.

Trustee Anaya asked about the different objectives between a financial statement audit and an internal control and compliance audit. Ms. King stated that the committee should take great comfort in the work of the external auditors and their opinion on the material accuracy of the system's financial statements and the college and university financial statements. She added that there was not material comfort provided on internal controls, there was a very high comfort on financial accuracy. She explained that when you switch over to the internal control environment, the assurance is not on the top line financial information, but rather on the transaction level financial information. She added it was important to understand that the two different risk assurances which were both useful.

Trustee Hightower inquired what the Board would receive relative to the internal control and compliance audits. Ms. Buse stated that just as before, the audit reports would go to the Audit Committee for review. She stated that the committee has seen examples in the past year, of both a standalone institution internal control and compliance audit and a functional area internal control and compliance audit. She stated that the board could expect to see more of those types of audits than what they had seen in the past.

Chancellor Rosenstone added 18 years ago, there was difficulty in giving the Board and the public basic financial statement assurance of the system and the colleges and universities, and that is no longer an issue. We have scarce resources. The proposed changes to the audit approach will allow the system to use resources to monitor other areas of risk.

Trustee Erlandson asked if foundations offering grants to the colleges and universities require financial statements. Vice Chancellor King replied that the enhanced supplement would enable MnSCU to show at the institution level what the unaudited schedules were as part of the systemwide audit. She added that historically, there had not been issues with grants given to non-audited schools.

Trustee Krinkie asked about the rationale for the four stand-alone university audits. Vice Chancellor King replied those were included at the request of the university presidents (Bemidji State University, Metropolitan State University, Winona State University and St. Cloud State University).

Trustee Krinkie also asked what impact the proposed changes would have on the overall audit costs. Ms. Buse stated that she anticipated a re-distribution of resources but that there would be more analysis on how to best provide internal control and compliance audits in the future.

Trustee Ristau asked if there would be internal control and compliance audits done at the four state universities who would still be getting standalone financial statement audits. Ms. Buse stated that at this point MnSCU did not have the resources to do annual internal control and compliance audits at each institution, so the institution audits would be selected based on a risk assessment.

Ms. Buse reviewed the recommendations.

Chair Hightower expressed concern that the motion specifically named the four universities that would have the stand-alone audits. He added that the motion was very specific, and his concern was that with changes in leadership coming at some of the institutions, there may be an issue if a new president requested an audit. Ms. Buse stated that if a new president requested an audit, she would be required by Board policy to bring that request back to the committee. Vice Chancellor King referred to the second bullet in the motion and suggested eliminating the named the institutions in order to offer some flexibility. She thought this would still be consistent with

Board policy that authorized the Audit Committee to select auditors and recommends their appointment to the board. An amended motion could go before the full Board upon review by the Office of General Counsel.

Trustee Krinkie stated that moving forward with the changes to the audit approach, it would be essential to have the continued success of the Campus Service Cooperative in key areas like payroll and purchasing cards. The Campus Service Cooperative gives assurance that the system has the complete financial information that a systemwide audit would indicate. Vice Chancellor King agreed that the work of the Campus Service Cooperative lowers costs and human effort which lowers risks.

Chair Anaya thanked Ms. Buse and Vice Chancellor King for the presentation. Trustee Ristau moved that the Audit Committee recommend adoption of the following amended motion. Trustee Paskach seconded the motion. The motion prevailed.

RECOMMENDED AMENDED COMMITTEE ACTION:

The Audit recommends the Board of Trustees adopt the following amended motion:

The Board of Trustees endorses the recommendations offered by the Executive Director of Internal Auditing and Vice Chancellor – CFO regarding a future plan for financial audits. It further authorized the Executive Director of Internal Auditing and Vice Chancellor – CFO to take the following steps:

- Initiate a competitive bidding process to select external auditors for the MnSCU system, revenue fund, federal student financial aid (A-133), and ISEEK for fiscal years 2014 – 2016.
- Initiate a competitive bidding process for required NCAA Agreed Upon Procedures engagements for the six state universities with intercollegiate athletics.

The meeting was adjourned at 2:04 p.m.

Respectfully submitted,
Laury Anderson, Recorder