

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

Audit Committee Members Present: Trustees Ann Anaya, Chair; Phil Krinkie, Elise Ristau, Michael Vekich, and David Paskach (by phone).

Audit Committee Members Absent: none.

Others Present: Chancellor Steven Rosenstone, President Pat Johns, President Edna Szymanski, Alexander Cirillo, Duane Benson, Cheryl Dickson, Maria Peluso, Tom Renier.

The Minnesota State Colleges and Universities Audit Committee held its meeting on May 21, 2014, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Chair Anaya called the meeting to order at 8:08 a.m.

1. Minutes of April 23, 2014

The minutes of the April 23, 2014 Audit Committee were approved as published.

2. Review Results of the Internal Control and Compliance Audit of Minnesota State University Moorhead

Ms. Beth Buse, Executive Director of Internal Auditing, introduced Audit Committee presidential liaison, President Edna Szymanski. Ms. Buse also introduced Ms. Melissa Primus who is the Audit Project Manager. She stated that Mr. Craig Fautsch, Ms. Carolyn Gabel and Ms. Indra Mohabir were the audit coordinators who worked on the project.

Ms. Buse stated that the audit was part of the audit plan approved by the Audit Committee in June. She noted that Minnesota State University Moorhead's last internal control and compliance audit was 14 years ago and had been completed by the Office of the legislative Auditor. Ms. Buse reviewed the audit objectives as well the scope of the audit and the methodology that was used.

Ms. Buse stated that the overall conclusions were that with the exception of some receipts, internal controls were generally adequate. She added that, for the items tested, they generally complied with significant finance-related legal requirements and applicable policies, procedures, and guidelines. Finally she stated that the report contained seven findings.

Ms. Primus reviewed the seven findings from the report. Ms. Buse noted that the findings were similar to findings from other recent internal control and compliance audits, and that some of the findings reflected very small dollar amounts. She noted however, that this kind of coverage provided a Tone at the Top perspective and having audit presence at the colleges and university helped with a control environment.

Regarding finding number five, Trustee Krinkie asked why the university was denied a request to assign student workers their own passwords accounts. Ms. Buse stated that individual access would give student workers broad access beyond what they would need to have in order to accomplish their work. Ms. Buse stated that the system was being looked at to see if there was a way to break apart the security access to a more granularly level in order to limit access to particular functions.

Trustee Krinkie asked if this practice was going on at other institutions. Ms. Buse stated that given transitions and resource restraints, it was likely that the practice was going on in other places. She cautioned that an employee sharing their password goes against the acceptable use policy in board policy and system procedure. But she added that if employees are put into difficult situations where they are being asked to violate policy and procedures, then the system needed to look for a different solution.

Trustee Anaya thanked President Szymanski for her letter of May 9th. She stated that she shared her perspective about Tone at the Top, and she thanked the president for her kind words regarding the Office of Internal Auditing.

President Szymanski stated that the Minnesota State University Moorhead audit was an excellent experience. She stated that the tone and the approach really helped her staff to see the audit constructively and to work through the issues. President Szymanski stated that the university had either resolved the findings or, in the case of inventory practices, were in the process of resolving the findings. But she added that she wished that the universities and colleges had the opportunity to have these audits more often. She felt that it was an excellent tool for her as a president, and as she prepared to pass the torch to a new president, she felt that she would be able to pass along a much better university, with far better internal controls. She thanked the audit committee, the system office, as well as her own staff for the excellent work.

3. Review Results of Financial Aid Audits

Ms. Buse introduced Mr. Craig Popenhagen, Principal with CliftonLarsonAllen LLP, Ms. Brenda Scherer, Audit Manager with CliftonLarsonAllen LLP, and Mr. Christopher Halling, System Director for Financial Aid.

Ms. Buse presented overview material on the single audit 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. The audit work, which was performed by CliftonLarsonAllen was compiled into a State of Minnesota Single Audit report. That report was issued to the federal government on time this year, however, Ms. Buse reminded the committee that the results of the fiscal year 2012 audit had not been submitted in a timely way last year. Everything had been completed in a timely way by MnSCU, however, because those results are incorporated into the State of Minnesota's report and their report was submitted late, MnSCU was sanctioned. As a result, the colleges and universities have been working under sanctions that were imposed by the United States Department of

Education. Ms. Buse stated that those sanctions were still in place and created an extra burden for the colleges and universities to work under in administering their federal financial aid programs.

Trustee Dickson asked why the Perkins and Nursing grants were not included in the graph that showed MnSCU's Federal Financial Assistance trending. Ms. Buse explained that those grants were part of a revolving fund, so they did not represent new dollars coming into the system. She stated that in the future there could be another graph that shows the full picture of loans going to MnSCU students. Trustee Renier added that the money from those loans came back to the system and remained dedicated to those specific purposes, so they never lost their federal identity. Ms. Buse agreed and stated that the loans were collected within a central loan collection unit, but institution funds were kept separate, so the collections determine how much would be available to loan out the following year at each institution.

Ms. Laura King, Chief Financial Officer, stated that the trending toward increasing student financial aid grants and loan activity is a national phenomenon. She added that those increases are unrelated to the increases in tuition. Ms. King stated that what has been found is an increasing financial need in the student population coming out of their households. Financial capacity seems to be a change in household income and support for higher education, more than the rising cost of attendance, at least for MnSCU institutions.

Mr. Popenhagen reviewed the fiscal year 2013 Federal Student Financial Aid findings. He stated that the three prior year findings had been resolved. He stated that the results of the audit were good. Ms. Scherer went on to explain the process used to conduct the audit. Mr. Popenhagen stated that conducting the Student Financial Aid Audit takes a high degree of coordination both with system office staff as well as with staff at the campuses. He stated that they had good coordination and communication with everyone, and he thanked the staff for their good work and assistance.

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 does follow-up work on all findings.

Trustee Dickson noted that MnSCU students receive 31% of the state grants, she asked of the students that were eligible, what percentage were MnSCU students. Mr. Halling stated that more than half of the students receiving state grants were MnSCU students, but they received only 31% of the funds.

4. Review Results of Audit Risk Assessment

Ms. Buse started by stating that internal audit standards and board policy required that an audit plan be developed based on a documented risk assessment and be brought to the audit committee annually for approval.

Trustee Benson asked if there were differences between higher education auditing and other types of auditing. Ms. Buse noted that there were significant differences, primarily in

resources, but she added that while the financial services area is highly regulated and may have very large audit teams, they follow the same internal auditing standards as the MnSCU Office of Internal Auditing.

Ms. Buse highlighted some thought leader themes related to risk, and reviewed the framework used for completing the audit risk assessment.

Ms. Buse introduced a model for looking at operational risk management endorsed by the Institute of Internal Auditors called the Three Lines of Defense. The first line of defense are functions that own and manage risks, the second line of defense are functions that oversee risks, and the third line of defense are functions that provide independent assurance. Trustee Anaya stated that she would like to come back to the first line of defense in a later conversation as it relates to the use of passwords with students.

Ms. Buse moved on to discuss the overall themes. The challenges of constrained resources was a theme that was imbedded in all the conversations. The impact and support of leadership transitions going on within the organization is an issue. She noted that almost half of the presidents will have less than two years of experience, and that is true of system office cabinet as well. Ms. Buse stated that the Campus Service Cooperative is working toward common business practices but currently the number of decentralized processes creates a risk to the organization. Ms. Buse stated that there is an increasing complexity of operations and regulations, using the same limited resources. She added that one of the conundrums is encouraging innovation vs. implementing solutions on a systemwide basis. We are challenged as an organization to learn how to encourage innovation by individuals who see a need, balanced with the need to streamline to common business practices, given constrained resources. In determining the three lines of defense framework, she stated the system has a limited second line of defense.

Ms. Buse reviewed some areas where an audit might add value to the organization. Those areas included international studies programs and undergraduate student transfer. In the area of regulatory compliance she suggested an audit of Clery Act compliance. She noted that there's a reputational risk if the system is not in compliance, because this relates to reporting of crime statistics. She noted other areas such as of ADA and PCI compliance, pension administration, and workers compensation management. Other options included audits in the area of facilities, the Campus Service Cooperative and the emerging area of the Affordable Care Act.

Ms. Buse stated that that Board had approved a revised financial audit plan for the system in January 2014. As part of that plan we reduced the number of individual college and university financial statement audits, and the goal was to increase number of financial internal control and compliance audits. Earlier in the meeting the committee heard the results of an institution financial internal control and compliance audit of Minnesota State University Moorhead. Functional internal control and compliance audits, such as the Purchasing Card audit, are expensive audits to conduct because of the lack of common business practices across the system. The audit team has to get an understanding about the processes at each college or university, which takes time.

Ms. Buse reviewed the methodology for the institution financial risk model that has been used for the last four years. She noted that the metrics have been tweaked every year. Ms. Buse stated that although the tool is a starting point, the results of running the model showed an increase in financial risk. She stated that one of the things that was looked at was the number of years since the last internal control and compliance audit. As fewer audits are performed that risk rises. There has been an increase in the number of institutions with a negative net operating income. Also twenty-three institutions had a decrease in their CFI from FY12 to FY13. And finally Ms. Buse noted that a change in key personnel and leadership transitions adds risk to the organization.

Ms. King stated that she was troubled by what the tool is doing because it has so much weight in the audit category. She stated that she would like to think about how to factor in materiality before the audit committee is given advice from a risk assessment stand point. She noted that she and Ms. Buse were committed to keep working on the model, but she invited committee discussion about their thoughts about the metrics used for the tool.

Trustee Vekich stated that he had discussed the collaboration between the Office of Internal Auditing and the Finance group with Ms. Buse. He noted that finance is a risk area, but as you look at overall risks, he felt that it was probably more in the moderate area of risk than the level that the model was suggesting. Trustee Anaya agreed.

Mr. Eric Wion, Deputy Director of Internal Auditing, stated that the protection and stewardship of data and data systems is an important issue to everyone in the organization. He reviewed the three broad areas of Information Technology Risk, confidentiality, integrity of data, and availability of systems. Mr. Wion talked about the cost of breach to the organization from both a financial and a reputational risk perspective.

Mr. Wion discussed the process used to assess and determine IT audit risk in the system. He stated that the MnSCU computing environment was a complex environment and each of the systems have many levels of controls, technologies, and complexities.

Trustee Anaya asked if it would be possible to table the fiscal year audit planning until the June meeting. Ms. Buse stated that she would like to come back to the committee in June with a suggested audit plan for FY2015. The committee could take time at that meeting for discussion about the plan and about the audit topics for the upcoming year. She stated that she would plan to take the information and the feedback she received from discussions with trustees, and come back to the committee with a draft for them to talk about. She added that it might be possible to build some flexibility into the plan so that the committee could have further discussions in the fall when they meet again. Trustee Anaya agreed with that plan.

Trustee Vekich stated that collaboration with the finance committee would need to be worked into the plan as well. He noted that the presentation didn't mention culture and he asked the chancellor for his vision as it relates to culture and tone at the top, and if he was satisfied with the audit risk assessment that was presented.

Chancellor Rosenstone stated that the discussion about the Minnesota State University Moorhead audit and the tone that the president had set throughout the organization was an example of tone at the top. He stated that we live in a complicated world and we will never have all the resources to mitigate all the risks that exist. He shared two thoughts. The first thought was that the results of the process has to get everyone focusing on the risks which have the highest probability of actualizing and the highest impact if they do actualize. His second thought was the question of how do we create the culture, not just from the top, but the culture throughout the entire organization of zero tolerance for violation of board policy, and zero tolerance of not speaking out when something inappropriate occurs. The chancellor stated that a culture of vigilance and attention to risks would be the most effective and efficient way to mitigate a whole range of risks. He added that it was an extremely important point, because if the culture and climate of the organization did not encourage and reward compliance with policy, attention to risk, and daily management of risks, then the system would not accomplish what it needed to as an organization. Trustee Vekich agreed with the chancellor.

The meeting was adjourned at 9:43 a.m.

Respectfully submitted,
Darla Senn, Recorder