

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES  
AUDIT COMMITTEE MEETING MINUTES  
June 18, 2014**

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

**Audit Committee Members Absent:** Trustee Ann Anaya.

**Others Present:** Chancellor Steven Rosenstone, President Pat Johns, Trustees Duane Benson, Margaret Anderson Kelliher, Alexander Cirillo, Cheryl Dickson, Dawn Erlandson, Maria Peluso, and Louise Sundin.

The Minnesota State Colleges and Universities Audit Committee held its meeting on June 18, 2014, 4<sup>th</sup> Floor McCormick Room, 30 East 7<sup>th</sup> Street in St. Paul. Vice Chair Krinkie called the meeting to order at 9:21 a.m.

**1. Minutes of May 21, 2014**

The minutes of the May 21, 2014 Audit Committee were approved as published.

**2. Internal Audit Update**

Ms. Beth Buse, Executive Director of Internal Auditing, began by stating that she had met with Trustee Vekich, Trustee Anaya, and Vice Chancellor Laura King to develop a protocol for approving non-audit services by the system external auditor, CliftonLarsonAllen, LLP. She stated that board policy allows for the engagement of the system external auditor for other services but requires a review by the audit committee. Ms. Buse stated that there is a request from Anoka Technical College to contract for some consulting services with CliftonLarsonAllen. As part of the protocol, a quality assurance team with CliftonLarsonAllen reviewed the request to ensure that their independence would not be impaired by the project, and they have submitted a letter to Audit Committee Chair Anaya with that assurance. Both Vice Chancellor King and Ms. Buse concurred that independence would not be impaired on this particular engagement. Finally, the protocol requires Ms. Buse to inform the committee as part of an update to include in the minutes.

Ms. Buse gave a brief update on the payroll audit work at Metro State University. The external review team that was assembled by Vice Chancellor Mark Carlson completed their work and internal auditing staff has begun testing those results. She stated that she would work with audit committee leadership to determine the best way to communicate the results of that audit work.

Trustee Sundin asked if faculty and staff at Metropolitan State University were getting paid correctly. Ms. Buse stated that she had no indication that there were any ongoing concerns, but she added she would be able to offer the committee assurance once the audit work was complete.

Trustee Krinkie stated that he has asked for updates at every opportunity and he has been assured that staff are being properly compensated, and work is happening to ensure that this won't happen at Metropolitan State University or at any of our campuses again. He added that he believed it was appropriate to continue to monitor and ensure that the compensation practices were correct.

Ms. Buse agreed and added that a tremendous amount of work had been done at the university over the last several months, in a very complicated subject matter. Faculty payroll is very complex and thus it has taken several months for the external review team to do a comprehensive review. She stated that she planned to come back to the audit committee to discuss the results and recommendations for the future to ensure that we have appropriate controls in place to prevent this from happening again.

### **3. Approve Annual Audit Plan for Fiscal Year 2015**

Ms. Buse highlighted key points in the annual audit plan for fiscal year 2015. She stated that board policy requires the audit committee review the audit plan each year and Internal Auditing Standards requires that the plan be approved by the Board of Trustees.

Ms. Buse reminded members that the committee ended their discussion on the risk assessment results in May with the plan that Ms. Buse would come back with a proposed audit plan for review and approval. She added that although the audit plan was ambitious, she would come back to the committee and propose changes when necessary based on changing priorities.

Ms. Buse reviewed the risk assessment summary. She reminded members that as part of the discussion in May, she and Vice Chancellor King had agreed to take a focused look at some of the drivers for the risk model over the next year to determine if there were any changes that needed to be made. She stated as less college and university specific audit work is done, the driver that looks at the number of years since the last audit becomes a bigger factor and there was a question about whether that factor should be weighted differently, for example, than the materiality of colleges and universities.

Ms. Buse stated that Trustee Vekich had brought up a question of missing risk factors such as culture and tone at the top. She added that it was one of the areas where internal auditing might be able to do some work in the coming year. The risk that a drop in enrollment has on institutions in these times of constrained resources was another area where audit work might be helpful. She stated that there wasn't a specific project planned but that it was a topic that had come up for discussion. She asked trustees for other suggestions where internal audit could focus their resources in the next year.

Trustee Benson asked about a project that would look at how the board's ability to manage risk is affected when decisions are taken out of the board's control, such as with a mandated tuition freeze. Ms. Buse stated that it was an important factor in understanding the transparency of where those restraints may require the system to accept more risk in certain

areas than the board is comfortable accepting. She added that work being done in Charting the Future and with the Campus Services Cooperative might help in mitigating risks in other ways than have been done in the past because of our constrained resources.

Ms. Buse highlighted information in the proposed audit plan. She stated that more time has been spent on fraud inquiry and investigation work in the last few years than in the past. She added that she was working to create an investigation position to focus in that area. The creation of this position will help keep the rest of the audit plan on track because investigations can be very disruptive.

Trustee Krinkie asked if there had been discussions regarding allocation of costs for investigations. Ms. Buse stated that she and Vice Chancellor Laura King had not yet discussed the idea of billing costs for investigations back to the campuses. She stated that her office worked with the colleges and universities to determine the scope of each investigation, and relied on them to do some of the work. She added that in some cases, when detailed forensic work or outside expertise was needed, the colleges and universities have covered those costs.

Ms. Buse stated that the fraud policy would need to be reviewed in the next year. That policy might be changed to include a hotline and expectations about who would cover the costs of investigations. She stated that she has had conversations with Vice Chancellor Carlson and General Council Olson on how investigative services might benefit as a shared service through the Campus Services Cooperative.

Ms. Buse reminded the committee that the two primary revisions in the financial audit plan were to reduce the number of financial statement audits at individual colleges and universities and then increase the number of internal control and compliance audits. The proposed plan included four internal control and compliance audits at Minnesota State University, Mankato, Minneapolis Community and Technical College, Dakota County Technical College and Itasca Community College. Ms. Buse noted that the four institutions represented 18.5% of system assets in fiscal 2013.

Ms. Buse stated that system leaders agreed with the proposed plan, but she noted that there were mixed thoughts about the audit at Itasca Community College, because of the small size of the institution from a financial standpoint. She added that she had spoken with the presidents at the four institutions and President Collins had offered her assurance that any audit results from Itasca would be shared with the other colleges in the Northeast Higher Education District from a continuous improvement perspective.

Ms. Buse stated that planning for the Grant Management audit, which had been part of the fiscal 2014 audit plan, was currently being done, but field work would be conducted in early fiscal year 2015. In addition, the proposed fiscal year 2015 audit plan included two projects that came out of the risk assessment work. International and Study Abroad Programs would be an academic topic and the Clery Act would be a regulatory compliance topic.

Ms. Buse stated that they planned to do high-level security assessments of key controls at the same four institutions that will have financial internal control and compliance audits. In addition an IT audit is planned of college and university controls over computers and networks allowed access to the enterprise data warehouse. The final IT audit would be network security controls for enterprise computer systems. That audit work would be concentrated in the ITS division within the system on networks that provide support for all colleges and universities.

Ms. Buse reviewed the advisory services and other internal auditing activities for the next year. Ms. Buse stated that policy 1C.2 Fraudulent and Other Dishonest Acts and policy 1D.1 Office of Internal Auditing, would both need to be reviewed in 2015. She noted that policy 1D.1 needed some technical changes to ensure compliance with internal auditing standards.

Ms. Buse noted that Trustee Vekich had requested that the Office of Internal Auditing begin reviewing board expenditures again. She stated that her office had done those reviews in the past and would work with Trustee Vekich and the Executive Committee to review the expenditures in 2015.

Ms. Buse reviewed the external audit activity that her office would continue to monitor and coordinate. She reviewed the administrative items in the plan.

Trustee Vekich asked for assurance that approving the proposed audit plan for fiscal year 2015 would not preclude the committee from having further discussion related to culture and tone at the top. Ms. Buse assured the committee the plan would be flexible. She added that it was also her intention to build a control environment type interview or questionnaire as part of the four college and university internal control and compliance audits.

Trustee Ristau asked if the plan would include an enrollment audit. Ms. Buse stated that at this time there wasn't a role for audit in the work that Vice Chancellor King talked about last month. But she added that if something would come out of that work, the audit plan would be flexible enough to do some audit work.

Chancellor Rosenstone stated that he thought the work that Director Buse had laid out was important work to be done to give the Board assurances in key areas of the operations of our colleges and universities and the system. He added that there was still the bigger question of the board's need to have a deeper dive into the strategic risks. He agreed with Trustee Vekich's suggestion that there be a topic at the Board retreat in September, where trustees could take more time for discussion. He stated that he had asked each president, as part of their performance review, to identify the most important strategic risks that they believe their college or university faces and the strategies employed to manage those risks. That input might modify the list for trustees to discuss. He added that that the Leadership Council retreat was scheduled for a week before the Board retreat and they would be having their annual risk assessment discussion.

Trustee Krinkie asked for background on the increase of investigations and the plan for filling the manager of investigations position. Ms. Buse stated that there had been a

significant increase in the last several years in the use of internal auditing resources in regards to conducting fraud investigations and inquiry work.

She didn't have an answer as to why there had been an increase, but she felt that some of it was related to the number of transitions at the colleges and universities. She also thought that some increase could be attributed to more awareness of the requirement to bring issues forward. She stated that her office spends well over one position's time in a year. With the addition of the new manager of investigations position, she hoped to build more consistency in approaches, become more efficient in how issues were reported, and work consistently with General Council and Vice Chancellor Mark Carlson and the labor relations staff. Ms. Buse stated that she was working with human resources and was hopeful to have the position classified within the next month and would look to fill the position shortly thereafter.

President Pat Johns, Lake Superior College stated that the proposed audit plan was very robust. He asked if it would require one hundred percent of existing staff to fulfill the plan, and if there was room for adjustments for other issues that might come up through the year. Ms. Buse stated that at this point there was not a lot of flexibility built in the plan for current staffing resources. She stated that if issues came up throughout the year, some adjustments would need to be made. She added however, that she hoped to fill the manager of investigations position with an individual who would be able to help with audits if there was a downturn in investigations.

President Johns offered his support of an internal control and compliance audit at Itasca Community College. He believed there could be benefits across the system and he added that there were different dynamics at smaller institutions. Trustee Krinkie agreed.

#### **RECOMMENDED COMMITTEE ACTION**

On June 18, 2014, the Audit Committee reviewed the Fiscal Year 2015 Internal audit plan and approved the following motion:

#### **RECOMMENDED BOARD OF TRUSTEES MOTION**

The Board of Trustees approves the Office of Internal Auditing annual audit plan for fiscal year 2015.

#### **4. Review Results from Capital Construction Audit Pilot**

Ms. Buse explained that the decision to do a pilot capital construction audit came, in part, out of discussions with other systems and in other industry sectors that have capital construction projects audited for compliance to contract terms as a best practice. She stated that she and Vice Chancellor King would assess the results of the audit to determine what type of program, if any, might be incorporated into the capital construction project program within the system. She stated that they planned to bring their assessment and suggestions for the future back to the

committee later in the year.

Ms. Buse introduced Mr. Matt Gardner, Risk Advisory Services Manager, with the firm of Honkamp Krueger & Co. Mr. Gardner gave a brief background about his experience and about the firm. He explained how construction audits can add value by identifying overcharges, non-allowable and other miscellaneous disputable changes, cost avoidance, identifying and managing risks, developing and maintaining financial controls and avoiding litigation.

Mr. Gardner explained that two construction projects were identified based on the construction delivery method that was chosen and any known concerns about the construction projects.

Hennepin Technical College's Learning Resource Center & Student Service Center Renovation project had a design/bid/build lump sum agreement. Mr. Gardner noted that they would typically see a 1-2% recovery for this type of agreement. There was \$32,937 in cost recovery opportunities identified which was represented about 5%.

Minneapolis Community and Technical College's Workforce Program Renovation was a construction manager at risk project with a guaranteed maximum price agreement. There was \$27,252 in cost recovery opportunities identified.

Mr. Gardner summarized their audits by saying that detailed requirements on how change orders should be executed and processed should be enhanced. Contract language should be updated to ensure the utmost in owner protection. He noted that there was some opportunity for additional recoveries in the future with some contract language changes. There should be competitive bidding requirements for contractor performed work. Finally, consistency in the project management team and proper knowledge transfer was important.

Trustee Vekich thanked Mr. Gardner for his report and for the good work. He asked if there was a management response to the report. Ms. King stated that a management response was not issued for this report. She noted that there had been an exit with the auditors and they walked through their work product and answered questions.

Trustee Vekich asked how the audit findings were being added to the system construction project programs and contracts going forward. Ms. King stated that there had been really good discussion about the recommendations during the exit conference. She added that work had already begun to modify some of the form contracts and form methods. Ms. King added that this was unique because negotiations were still underway in determining what would be reimbursed back to the colleges from the contractors. She also noted that the final pilot results would still need to be evaluated and a proposal brought back to the committee at a future meeting.

Trustee Vekich asked Mr. Brian Yolitz, Associate Vice Chancellor for Facilities, how he approached the pilot report findings and how had they been incorporated into the contracting process. Mr. Yolitz stated the timing of the pilot project was fortunate because they were going through a review and update the AIA documents that govern general conditions,

operations, and the various contracting methods. He stated that they would take full advantage of the results of this work and would be incorporating them into the regular update process.

Trustee Vekich asked what management's role had been in the selection of the projects and their involvement with the audit process. Mr. Yolitz explained that Ms. Heidi Myers, System Director for Design & Construction, had significant input in selecting the two projects for the pilot. He added that throughout the process, the program manager at the system office as well as the project managers at the campuses were involved in a dialog and the follow-up of individual findings and clarifications as well as reviewing the contract documents. Mr. Yolitz stated that he was pleased with the amount of management involvement, and he anticipated that they would continue to be involved as a strategy for the future developed.

Trustee Vekich wanted a better understanding of the cost benefit of the two pilot projects. He asked if the negotiations were finalized. Mr. Gardner stated that negotiations between the institutions and respective general contracts are still in progress. Ms. Buse noted that for the project at Hennepin Technical College there was a retainage in excess of \$200,000 withheld as negotiations were ongoing. She further noted that for the project at Minneapolis Community and Technical College, there was two phases to the work that Mr. Gardner and his team performed. A certain percentage of identified opportunities was collected at the end of the first phase, and they had just wrapped up work in the last couple months on the second half, so those negotiations were ongoing.

Trustee Sundin asked if the audit looked at the requirement of minority and women contractors and subcontractors. Mr. Gardner stated that during the payment applications testing, which was done on a sample basis, they were able to verify and validate that the projects were using the correct percentage minority and woman contractors and subcontractors. Trustee Sundin state that the information should be specifically listed as follow up to be added regularly to our internal reviews.

Trustee Krinkie thanked Mr. Gardner for his presentation and the fine work. Ms. Buse again stated that they planned to evaluate the results and come back to the committee with a proposal for the future as it relates to capital construction audits.

The meeting was adjourned at 10:31 a.m.

Respectfully submitted,  
Darla Senn, Recorder