

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE
DRAFT MEETING MINUTES
December 17, 2007**

***Audit Committee Members Present:** Trustees Scott Thiss, Chair; Dan McElroy, Ann Curme Shaw and James Van Houten.*

***Audit Committee Members Absent:** none.*

***Other Board Members Present:** Trustees Cheryl Dickson, David Paskach, Tom Renier, Christine Rice and Carol Wenner.*

***Leadership Council Committee Members Present:** Chancellor James McCormick, President John Quistgaard, John Asmussen, Gail Olson, Laura King, and Catherine McGlinch.*

The Minnesota State Colleges and Universities Audit Committee held its meeting on December 17, 2007, at Wells Fargo Place, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair Thiss called the meeting to order at 10:04 a.m.

Approval of the Audit Committee Meeting Minutes

Chair Thiss called for a motion to approve the November 13, 2007, Audit Committee Meeting Minutes. Trustee Van Houten asked for a clarification of a statement made by Mr. Wischmann. The third paragraph on page four is clarified as follows:

Mr. Wischmann stated, "I do believe, based on the audit reports that we receive and information that we've reviewed, that indeed they are arms length or independent type contracts." He further added, "I do believe that based on their audit results, and the independent review of those, that [the foundations] are indeed appropriately classified and reported."

A motion was made to approve the minutes as clarified. The motion was seconded, there was no dissent and the motion carried.

1. Review Internal Auditing Annual Report (Information Item)

Mr. John Asmussen, Executive Director of the Office of Internal Auditing, stated that the Internal Auditing Annual Report was required under board policy 1D.1. He noted that there were a couple new features in the report this year.

Mr. Asmussen pointed out that the first new item in the report was a personal statement from him which declared to the board that he had maintained his independence over the course of the year. He stated that when he had opportunity to advise the Chancellor or the presidents on matters, he was careful to remain independent from critical management decisions. He further assured the committee that if there were events which would create a potential impairment, he would consult with the chair to ensure that the office had the appropriate independence that it needed to serve the board.

Chancellor McCormick agreed that it was important for Mr. Asmussen to make the statement of independence to the committee. He further assured the committee that from the perspective of senior management, the Executive Director of Internal Auditing had acted in an appropriate manner and had not interfered in management decisions. The Chancellor added that the relationship between the Office of Internal Auditing and the Office of the Chancellor had become a national model.

Mr. Asmussen pointed out that the second new item in the annual report was the section on the follow-up status of prior audit findings. He stated that the strategy for the past several years had been to develop two reports a year. A report was sent to the presidents mid-year on the status of any issues that are outstanding on their campus. Then at the end of the fiscal year, the report went out not only to the presidents, but to the Chancellor. Mr. Asmussen noted that the Chancellor had incorporated this report into his presidential evaluation process. He added that as a result, 80-85% of audit findings were implemented. He further added that the remaining audit findings often encountered barriers that delayed implementation.

Trustee Van Houten asked why earlier audits at Lake Superior College hadn't discovered any of the twenty-eight findings which were cited by the Legislative Auditor in 2006. Mr. Asmussen noted that Lake Superior College was one of the twenty colleges which were audited by the Legislative Auditor once every three years. He stated that the absence of any critical issues at Lake Superior College three years prior was an indication of how vulnerable institutions were to change. Mr. Asmussen stated that in order to resolve the 2006 audit findings, the college had undergone a cultural change in its business practices. The remaining findings were shown as unresolved until both the college and Internal Auditing were satisfied that there was evidence of sustained improvement. Internal auditing would conduct its regular follow-up in January to verify those improvements.

Mr. Asmussen stated that there had been progress on financial aid fronts over the past years and that Dr. Linda Baer's staff had been working to improve Return to Title IV and other issues. He pointed out that there was a possibility within the financial aid area for potential fraudulent activity, and he suggested that might be a project for internal auditing to review in the upcoming year. He explained that the tuition rates for two year colleges were relatively low so it was possible for a student with no income to maximize their financial aid and after subtracting out tuition, the student could walk away with four to five thousand dollars. He added that a person with fraudulent intent could recruit colleagues to apply to colleges, declare no income, and each person could receive four to five thousand dollars. He stated that he had had a number of conversations with federal officials in the U.S. Department of Education Fraud Unit, who confirmed that this activity was on the rise in the Midwest.

Mr. Asmussen explained that although students in these circumstances would be placed on probation and then get suspended, they could receive financial aid for

two terms without being suspended from that institution. In a system with 32 institutions, when a student got suspended from one, they could move on the next one. To counter this problem, Mr. Asmussen had initial discussions with Office of General Council's Family Education Rights Privacy Act (FERPA) expert as to whether other institutions could be notified when a student had been suspended from one institution. There appear to be possible legal solutions, but additional work is needed.

Trustee Van Houten asked if the technology project goal of a systemwide student database might solve the issue by allowing colleges to see if a student were already enrolled in another college in they system. Mr. Asmussen stated that the necessary technology was already in place, but that it was adherence to the federal laws around the student privacy rights that was at issue. Ms. King explained that although the Minnesota State Colleges & Universities was one system, the federal government viewed the colleges and universities as 37 separate institutions, each with a separately governed database which had no affiliation to each other. She added that it was important for the colleges and universities to be separate institutions for the purposes of administering financial aid, but the issue was to find a way for the system to behave as a system for the purposes of managing fraud.

Trustee Thiss asked what role the Office of Internal Auditing played this area. Mr. Asmussen stated under Board Policy 1C.2, the campuses are required to report evidence of fraud to the Office of Internal Auditing who then reports them to the U.S. Department of Education for investigation. He noted that fraudulent intent was difficult for the federal government to prove, however. He added that their advice was for the colleges to do whatever they could to ensure that enrolling individuals are serious students. Mr. Asmussen noted that the system also had to be careful not to deny access to legitimate students who may have encountered academic struggles.

Mr. Asmussen stated that he intended to include the section on prior audit findings in the annual report each year to ensure that the committee had an opportunity to review those prior audit findings annually. He added that he would continue to bring other issues to the audit committee chair as needed. Trustee Van Houten agreed that the addition of the list of findings was very helpful.

Trustee Van Houten asked if it was possible to report on the type of training and the status of the retraining efforts that emerge from each audit exception. Ms. King stated that the results of both the legislative audit work and the external audit work had been viewed as early indications of training needs either at an individual institution basis or systemwide. She stated that the work product was circulated to the entire community with communication from her office to draw attention to significant issues. She further stated that the findings were used to the establish agendas for meetings that were conducted twice a year for campus staff, as well as to establish the agenda for an all-day training that was dedicated just to financial reporting. She added that because of the size of the system, the turnover

rate in business offices is steady, so regular, consistent, ongoing training would continue to be a necessary part of the culture.

Trustee Dickson asked if there were appropriate consequences for institutions with findings that were unresolved for more than five years. Mr. Asmussen stated that there were very few prior audit findings that remained unresolved that long, but he added that the Chancellor would discuss unresolved findings with each president during their personnel evaluation. Trustee McElroy suggested that Board Policy 1D.1 be reviewed and possibly amended to require that unresolved auditing findings be reported to the board after an agreed upon period of time. Mr. Asmussen agreed to review the policy and bring it back before the committee at a future date.

2. Review External Audit Plan (*Information Item*)

Mr. Asmussen began by stating that there were six auditing contracts that had expired and a request for proposals would need to be issued by the end of January. He added that committee members had asked to review the rotation schedule.

Mr. Asmussen reviewed the schedule of stand alone audits and the percentage of system assets and operating expenses of each. He noted that it was expensive to hire public accounting firms to do annual audits, both in terms of the cost of paying the firms and also in educating the staff on the campuses to understand how to prepare audited financial statements. He further stated that by covering 60% of the assets and expenses through stand alone audits, the cost of the systemwide audit is reduced. The system auditor relies on the work of the stand alone audits.

Mr. Asmussen stated that it would be possible to swap one institution for another institution scheduled for an audit; however he noted that of the six institutions whose contracts would expire in 2008, five of them were state universities. He argued that it was important to keep state universities on an annual audit cycle because they benefit in a number of ways from having those annual CPA audits. Mr. Asmussen further argued against dropping the remaining two-year institution to a three-year cycle because of the investment on that campus to build up the capacity to prepare audited financial statements.

Mr. Asmussen suggested that there may be some critical mass where committee members might agree that an institution should be subject to an annual audit, such as institutions that represented over 3% of the system's expenses. But, he recommended against any immediate changes, because of the additional effort that staff would be expending this year because the new audit standards 104-111, would require staff resources in order to create a much deeper level of documentation to support the annual audits.

Trustee Thiss agreed that maintaining the state universities on their annual audit cycle made sense and added that it was also appropriate to suspend any potential changes until after the new audit standards were in place. But, he stated that there

was value to having an external auditor on a facility to help improve the records and he noted that the system had substantial assets that ought to have a systematic way of addressing change in institution size, percentage of assets, and percentage of system expenses.

Ms. King stated that in the strategic plan that was submitted, one of the recommendations was to dedicate the next five years to strengthening the underlying foundation, building capacity and return to the subject. She added that reevaluating the list in the 2009 cycle would be consistent with the strategic planning process that the committee undertook, and would reflect the balance between systemwide coverage and campus effort.

Trustee McElroy noted that it may be possible to request additional audit support from the Legislative Auditor on annual or biannual basis, depending on their capacity to do that additional work. He further noted that the audits conducted by the Legislative Auditor were rigorous and the biggest difference was annual to triennial. He added that reviewing the rotation list again in the 2009 cycle was appropriate.

Trustee Van Houten noted that the larger institutions tend to have a larger staff and the errors might be higher on the smaller campuses. He asked if there some efficiencies could be added to the system by consolidating activities at the system level. Ms. King stated that there were several projects in the Finance Division work plan that would try to identify, either because of a technology requirement or a training requirement, what opportunities might exist for consolidating back office functions.

3. Discuss Potential Internal Audit Topics for FY 2008 (*Information Item*)

Mr. Asmussen reviewed the list of potential internal audit topics with the committee. He stated that his first priority would be to create a system-wide hold to enforce student suspensions to diminish the potential for financial aid fraud. He noted that it was a known risk to the system and it would be appropriate to be proactive in finding a solution.

Mr. Asmussen further stated that internal auditing would need to spend more time preparing for statement auditing standards 104-111. He noted that discussions had already begun with Ms. King and her staff on how to improve the documentation out on the campuses.

Finally, Mr. Asmussen recommended that based on the discussion and outcome of the upcoming Joint Audit / Advancement committees meeting, that the Internal Auditing should conduct a policy evaluation of foundations affiliated with the Office of the Chancellor and the MnSCU colleges and universities.

Trustee Thiss asked if it would also be possible to determine the scope of the bookstore operations issue. He added that this would be the lowest priority and should only be undertaken if time was available. Mr. Asmussen agreed that it may

be possible to develop a descriptive study of bookstores and would undertake it if staff time was available during the year.

The meeting adjourned at 11:10 a.m.

Respectfully submitted,
Darla Senn, Recorder