

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE
MEETING MINUTES
October 8, 2008**

***Audit Committee Members Present:** Trustees Scott Thiss, Chair; Jacob Englund, Dan McElroy, David Paskach and James Van Houten.*

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

***Other Board Members Present:** Trustees Cheryl Dickson, Ruth Grendahl, David Olson, Tom Renier, and Louise Sundin.*

***Leadership Council Committee Members Present:** Chancellor James McCormick, John Asmussen, Gail Olson, Laura King, Bill Tschida, and President Pat Johns.*

The Minnesota State Colleges and Universities audit committee held its meeting on October 8, 2008, at Wells Fargo Place, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair Thiss called the meeting to order at 10:03 a.m.

1. Review Results of Legislative Audit Report (Action Item)

Trustee Scott Thiss, audit committee chair, introduced and welcomed Cecile Furkle, Brad White and Dave Paliseno from the Office of the Legislative Auditor.

Mr. White summarized the results of the Legislative Auditor's report that examined the financial controls and legal compliance at the Office of the Chancellor and nine colleges. He stated that the focus of the work was internal control and compliance covering fiscal years 2005, 2006, and 2007.

He explained that financial statement audits were meant to express an opinion on the financial health of the college and provide an independent assurance that the numbers were fairly presented. The control and compliance audits focused on operational controls and day-to-day oversight over processing financial transactions and would provide assurance that the colleges were adhering to board policies and system procedures.

Mr. White reported that adequate control did exist over major and routine financial cycles such as resident tuition, employee base salary and operating expenses. He noted, however, that the colleges needed to tighten controls over smaller higher risk, non-routine areas such as tuition reciprocity, employee leave and credit card use.

Mr. White stated that there were twenty-five findings in the report, eight of which involved systemwide issues and were potentially policy matters. He noted that most of the findings were directed toward specific college financial operations. He reported that they had labeled some findings as systemic findings, which was a new emphasis in the report. He stated that there were three systemic findings

which were control and compliance issues that could be best resolved by directive guidance or oversight by the chancellor's office.

Chair Thiss thanked the Office of the Legislative Auditor for their work on the report. He then led the committee through a discussion of the major findings in the report.

Chair Thiss noted that segregation of duties continued to be an issue for the smaller colleges. He asked what the colleges could do to prevent this finding in the future. Mr. John Asmussen, Executive Director of the Office of Internal Auditing, pointed out that the issues related to segregation of duties had changed over the years. He noted that in earlier years the findings had centered on the fact that the colleges had not been aware that they were granting conflicting duties to certain employees. He stated that awareness had improved substantially on the campuses and that the issue now was one of documenting the mitigating controls.

Chair Thiss asked if the investments being made in technology to control and access through electronic systems address any of the security issues. Ms. Laura King, Chief Financial Officer, stated that the technology could improve segregation of duty issues at multi-campus institutions, but for smaller single-campus institutions, the issue was a labor related issue.

Trustee Van Houten asked if the security concern related to the system's ability to recognize that a theft had taken place, or if the issue had to do with identifying who was responsible for a theft once it was discovered. Mr. Asmussen stated that at the end of the day the colleges would know there was a shortage, but in cases where employees share cash drawers, the college wouldn't know which employee contributed to the problem. He further stated that the risk would be manageable in remote operations that handle small amounts of cash, but the same business practices would create an unacceptable risk in the main business offices.

Chair Thiss asked if there were repeat findings from previous years. Mr. Asmussen indicated that security clearances at Fond du Lac and Itasca had not been remediated appropriately. He added that they were working with those presidents to put corrective actions into place.

Ms. King stated that there was a difference of interpretation on finding number four relating to banking services. She stated that current board policy did not require the colleges to bid and establish bank contracts, so these colleges were not out of compliance. However, she added the policy should be amended to require bidding and contracting as suggested in the finding.

Trustee McElroy asked if the colleges still had multiple banking relationships with a large number of accounts. Ms. King stated that the number of bank accounts had been reduced nearly in half since the system merger. She added that at the larger universities, there were still occasions to have more than one account relationship, but that it was more likely that those accounts would be at the same bank now. Ms. King informed the committee that her staff had facilitated a bid

process in the metro area where nine colleges went into a single relationship with Bremer Bank. She stated that it had been a fruitful exercise both from a relationship standpoint and a cost standpoint.

Chair Thiss asked if there was a contracting template for the colleges to use when bidding contracts with their local banks. Ms. King indicated that there was a template available for all the colleges.

Trustee Van Houten asked if colleges in smaller communities had difficulty with the banking options available to them locally. Ms. King stated that it was a substantial issue and recently one college had gotten only a single response to a banking contract RFP it had issued.

Chair Thiss asked if the accounting for faculty and administrator leave benefits was a manual process that might be addressed through more automated systems. Mr. White stated that the process did involve manual interaction by personnel and payroll staff. He added that an important dynamic was that the course load for faculty changed rapidly early in the semester and that changing status could affect the leave accounting and that different types of leave were driven by personnel and bargaining contracts. Ms. King asked if there had been any financial consequence due to manual mistakes. Mr. White stated that there had been minor mistakes in the severance pay and that the concern was a data integrity issue.

Trustee Van Houten asked if leave benefit issues had been noted in the audits of the seven larger schools. He added that if nine out of nine colleges audited had this same problem, then it was likely that the problem was occurring systemwide. Mr. Asmussen stated that the audits of the seven universities and the five largest colleges hadn't gotten to the same level of detail. He added that there would be a high likelihood that most of the twelve stand alone audits would experience some of this kind of risk as well.

Chancellor McCormick stated that part of the investment in technology will automate processes better than they have been. Trustee Van Houten observed that the exceptions did not seem to be on a particular issue on a particular campus, he added that ordinarily those issues could be centralized. He asked if it would be possible to move some of these activities around physically or with technology. Mr. Asmussen stated that the number of different scenarios was a function of the complexity of the labor contracts and the fact that this was a manual process. Mr. Bill Tschida, Vice Chancellor for Human Resources, added that there had been difficulties in making the transition on the leave accrual, but that providing staff with the appropriate tools and training will be an important part of the process.

Trustees Paskach noted the importance of proper accounting by supervisors for leave that was taken. He asked if there was a way to review balances across the entire system to determine if there was too much accrued leave in the system. Ms. King informed the committee that the financial statements contain dollarized values of all accrued but unused sick and vacation benefits. But she added that there had been analysis to determine if the long-term liability was at the level that

should be expected. Mr. Tschida agreed and added that at a very high level, leave balance information was reviewed and compared to the rest of the state. He stated that it is incumbent on supervisors to ensure that leave information is documented accurately. Chancellor McCormick added that there were leave accrual limits in place. Mr. Tschida agreed and stated that the rules were complicated and based on labor contracts.

Mr. Asmussen stated that the compensated absences represented a material amount on the face of the financial statements. He stated that at the macro level, external auditors tested the accuracy of the liability. He also stated that at the Office of the Chancellor a supervisor had more than one opportunity to ensure the accuracy of the information. But he suggested that it may be an area for the Human Resources committee to review in greater detail.

Trustee Englund noted that the recommendation for finding number five was that colleges should destroy old credit cards data retained and deposit records. He asked how old the records should be before they were destroyed. Mr. White stated that they had discovered credit card information going way back more than ten years. He further stated that information needed to be retained long enough for the charge to clear and for the card holder to contest a charge.

Trustee Sundin asked if credit card machines were being upgraded so that only the last four numbers were retained. Mr. White stated that there were still a variety of credit card machines at the colleges, but that the trend was toward the newer machines. He noted that the auditors did not take exception when they found card numbers that were masked.

Chair Thiss noted that findings number nine and ten dealt with the need to ensure that colleges were charging appropriate tuition as per board policy. He asked how the tuition could be inappropriately charged. Ms. King explained that the colleges were providing estimated tuition costs as part of their financial aid work up for students at the start of the year and tuition rates were not always established until as late as July. She stated that the tables should be reviewed by the colleges and universities after the board's spring meeting to verify that the tuition tables that were loaded earlier in the year were the ones approved by the board.

Trustee Van Houten asked what authority the colleges had to add a gas or other surcharge to all students without regards to specific usage. Ms. King stated that the colleges had no authority to add these kinds of fees. Trustee Dickson asked if board policy took into account sudden and significant changes to program costs. Ms. King explained that board policy provided for personal property fees. She added if that if there were a cost of doing business that was currently imbedded in the tuition rate, there would not be an extraordinary ability for the campus to change that rate or add an additional fee if the cost were to increase.

Chair Thiss asked if there was monitoring in place, through a cash management system, to ensure that the colleges were not overdrawn regardless whether they were reconciling their bank statements. Ms. King stated that the campus

assistance group had an exception reporting process that monitored whether bank statements were getting reconciled. She added that the Office of the Chancellor Finance division did not have the ability to look up bank balances directly. She stated that the issue at Rainy River Community College should have been flagged in the exception reporting process.

Chancellor McCormick asked if it would be possible to provide a central banking option for the colleges and universities. Ms. King stated that it was an option that they could look into but added that the colleges had relationships with their local banks to consider as well. Chair Thiss agreed that it would be helpful to look into different banking concepts that were available through technology. Trustee McElroy stated that even the smallest banks would have online information programs so that the Office of the Chancellor could see balances without necessarily having a single banking relationship. He further suggested that regional banking relationships may be another approach to consider.

Trustee McElroy stated that finding number eighteen was a recurring issue related to the distinction between credit cards and vendor issued credit cards. He added that a number of the vendors have limited cards that would be purchasing cards or acquisition cards. Ms. King stated that there was a feature called merchant blocking that allows a credit card to block out certain categories of merchants such as restaurants. She added that vendor cards were issued by a retailer. Mr. White stated that vendor cards may prohibit competitive bidding as the financial relationship already exists with a particular vendor. He further pointed out that often vendor cards were issued in the name of the institution and not in the name of the individual employee which provides less accountability. Ms. King noted that her office was working with the General Council's Compliance Officer on a credit card study.

Trustee Van Houten asked if the Office of the Legislative Auditor had confirmed that no error or actual financial loss had taken place in the areas where it had been determined that the possibility of an error could have a financial impact on the organization. Mr. White assured the committee that was the case.

Trustee Van Houten noted that in addition to identifying issues that could be problems systemwide, it may be important to identify campuses that consistently had difficulty filling key positions or where the current staff might not be capable of carrying out the responsibilities effectively. He expressed concerns about Fond du Lac Tribal and Community College.

Ms. King agreed that there was reason for concern and she assured the committee that there were changes underway to respond to the concerns there. Mr. Asmussen added that the internal audit coordinators would escalate an issue to the president if it were not getting resolved. He further added that the presidents receive periodic findings reports and that at the end of the year, those reports were given to the Chancellor for review.

Chair Thiss reviewed the findings that the committee thought should be referred to other committees. The committee agreed that finding number one regarding the granting of incompatible employee access to certain computer system functions, finding number four related to bidding and contracting with banks, as well as findings number nine and ten, regarding tuition and special program rates should all be referred to the Finance/Facilities and Technology Committee. Finding number thirteen, regarding faculty and administrator leave benefit accounting, should be referred to the Human Resources Committee.

Trustee Dickson asked if the Office of the Chancellor supplied a manual to the financial management offices at the colleges with necessary practices and best practices. Ms. King stated that there is a manual available online for the colleges and universities. She stated that there were policies, procedures, guidelines and instructions on how the accounting system works.

Board Chair Olson asked if there was a means in place to ensure that all colleges and universities were informed about the findings in the report, so that the same findings were not repeated in different colleges. Ms. King stated that the report would be brought to the attention of every president and every chief financial officer, whether they were in the scope of the audit or not. Chair Thiss added that the Office of Internal Auditing conducted follow-up to ensure that progress was made toward closing the audit findings.

Chancellor McCormick stated that he and President Pat Johns, Anoka Ramsey Community College, would make sure to include the Office of the Legislative Auditor findings on the next Leadership Council meeting agenda. He stated that this was an opportunity for continuous improvement.

Chair Thiss thanked the Office of the Legislative Auditor for its hard work.

2. Discuss the Roles and Responsibilities of the Audit Committee (*Information Item*)

Mr. John Asmussen reminded the committee that board policy required an annual training session in order to prepare audit committee members for their upcoming review of the audited financial statements. He provided the members with a sample of the audited financial statements from 2007 and a checklist to use as they reviewed the 2008 audited financial statements.

Trustee Thiss proposed that the committee members divide into two teams again this year. He stated that the approach had worked well in the previous year. He noted that each member would be responsible to read six audited financial reports as well as the systemwide audited financial statement. He further stated that all members would be welcome to read all the reports as well as the six reports assigned to them.

Trustee McElroy asked if the external auditors could provide information in their presentations about any changes in their audit methodology over previous years. Mr. Asmussen stated that there had been a series of new auditing standards that went into

effect in this last year, so there had been a substantial change in the approach the auditors took. He stated that he would work with the external auditors to ensure that information was presented in November as well.

Mr. Asmussen informed the committee that he and Mr. Tim Stoddard, Associate Vice Chancellor for Financial Reporting would work together to capture the important elements of the financial statements, along with any significant comments that came from exit conferences for each institution, and compile the information into a one page briefing sheet to accompany each audit. Mr. Asmussen provided the members with a sample of a briefing sheet from the previous year systemwide audited financial statement. He stated that the audited financial statements along with the briefing sheets would be sent to committee members at least one week before the November audit committee meeting. Finally, he informed members that he would be available to them for any questions that they had while they were reviewing the audited financial statements.

3. Review Internal Auditing Annual Report (*Information Item*)

Mr. John Asmussen stated that the Internal Auditing Annual Report was required under board policy 1D.1. He further stated that it was an opportunity to look back on the results of the work over the past fiscal year and reflect on the impact that the office has had.

Mr. Asmussen pointed out a status report from prior audit findings. He stated that the Office of Internal Auditing conducts a routine follow-up process. This report indicated that there were a handful of things that remained from prior years. He assured members that all of the issues were being attended to and resolved.

Mr. Asmussen also pointed out the section on areas of noteworthy improvement. He stated that there were three items that were particularly worth reflection. The first item was the DARS and CAS implementation. The board's intervention prompted dramatic movement in the implementation of those systems, and Mr. Asmussen stated that the system was in a much better position in terms of providing students with the kind of information they need to chart their progress toward finishing their degrees in a timely basis.

The second item of noteworthy improvement was in the area of student financial aid administration. In the past there had been recurring discoveries of financial aid problems, but those problems appeared to have been solved. The Chancellor had received a determination letter from the U.S. Department of Education which stated that prior year financial aid issues had been resolved satisfactorily. Mr. Asmussen stated that the improvement could be attributed to amended board policy and system procedures, standardized practices, training sessions, and monitoring.

Finally, Mr. Asmussen praised Lake Superior College and President Kathleen Nelson for the work to clear the last of the findings from three years ago. He stated that Lake Superior now had a very solid foundation for moving forward. Chair Thiss offered his appreciation to President Nelson as well.

Chair Thiss asked Mr. Asmussen if he could make a statement to the committee as to his independence. Mr. Asmussen assured the committee that the Office of Internal Auditing met the professional standards of internal auditing as an office. Having the audit office report directly to the board, with a dotted line to the Chancellor, was a best practice. He further assured the committee that he personally felt free to reach impartial judgments and that he had no qualms about coming to the audit committee chair or its members if matters ever needed to be escalated to their attention.

The meeting adjourned at 11:30 a.m.

Respectfully submitted,
Darla Senn, Recorder