

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE
MEETING MINUTES
September 16, 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 Duane Benson, Cheryl Dickson, Ruth Grendahl, Allyson Lueneburg, Tom Renier, Christine Rice and Terri Thomas.*

***Leadership Council Committee Members Present:** Chancellor James McCormick, John Asmussen, Gail Olson, Laura King, and Maria McLemore.*

The Minnesota State Colleges and Universities audit committee held its meeting on September 16, 2008, at Wells Fargo Place, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair Thiss called the meeting to order at 12:31 p.m.

Approval of the Audit Committee Meeting Minutes

Chair Thiss called for a motion to approve the March 18, 2008 Audit Committee Meeting minutes. The Chair moved to approve the minutes, there was no dissent and the motion carried.

1. Internal Auditing Report on Affiliated Foundations (Action Item)

Mr. John Asmussen, Executive Director of the Office of Internal Auditing, introduced Ms. Maria McLemore, Interim Executive Director of System and Foundation Relations, and Ms. Beth Buse, Deputy Director of Internal Auditing. He also thanked Ms. Carolyn Gabel, who was the lead audit coordinator for the affiliated foundations report.

Mr. Asmussen informed the committee that the project examined relationships with the forty-three foundations that existed in 2007, but he added that an additional foundation had been added in 2008 at the Minnesota State Community and Technical College.

Mr. Asmussen reviewed the key financial indicators with members and he noted the substantial size range between the foundations. Mr. Asmussen pointed out that in most cases, the college or university provided staffing for the affiliated foundation. He stated that the benefits that come from the foundations were split between scholarships and operating programs. Mr. Asmussen noted that the foundations also provided qualitative benefits such as the ability to build relationships across the system and flexibility for purchasing and property acquisition.

Mr. Asmussen reviewed the objectives of the study, stating that foundations had been reviewed for policy compliance. He reminded members that policy 8.3 College-, University- and System- Related Foundations would be due for its five year policy review this calendar year.

Mr. Asmussen reviewed a chart that emphasized the key points for assessing economic returns from the foundations. He reminded members that the foundations were legally separate entities. The colleges and universities allow the foundations to solicit donors on behalf of the college or university, but there had to be good oversight of that function.

Donor watchdog groups suggest monitoring the percentage of spending that was devoted to program benefits. The most rigorous national guideline required at least seventy percent to be used for program benefits. Throughout the Minnesota State Colleges and Universities, eighty-three percent of the donors' money was used for program benefits.

Mr. Asmussen stated that current board policy requires the system receive a dollars worth of benefit for every dollar spent. The system spent thirty-nine cents to raise a dollar which was well within board policy standards.

Mr. Asmussen pointed out that while both sides were satisfied with their return on investment, neither side was aware of the expenses on the other side, which created an incomplete picture of foundations operations. Mr. Asmussen stated that when system and foundation spending on administrative and fundraising was combined, only 63% remained for program purposes. Mr. Asmussen suggested this more holistic way of evaluating the operation efficiency may be more appropriate.

Finally, Mr. Asmussen noted that the analysis was based on all affiliated foundations combined, and he cautioned that some individual foundations had difficulty meeting some of the tests. He stated that eleven institutions had not met the donor test and another seven institutions had not returned at least a dollar for every dollar that was spent. He further stated that only fourteen of the forty-three foundations were able to meet the most rigorous operating efficiency test.

Mr. Asmussen finished his presentation by reviewing the other three questions that were raised through the analysis. To what extent, if any, should foundations be subject to oversight provisions beyond the basic requirements for non-profit charitable organizations? What should be the ramifications for foundations that cannot meet board requirements? To what extent, if any, should board policy be broadened to address relationships with other private, non-profit organizations, such as booster clubs and alumni associations?

Trustee Grendahl noted that it was often difficult to get a donor to give the first time, but that the return was often higher with past donors. She asked if the eleven institutions who had not yet met the donor test were newer foundations who might still be struggling to build their first time donor base. Mr. Asmussen

confirmed that in most cases those foundations were smaller foundations which had to invest in some start up costs. He further stated that preparing to launch major campaigns could also change the results for a given year. He added that the Charities Review Council and the Better Business Bureau recommended a three-year time period to assess the economic effectiveness of the foundation. He stated that only two years of data were used for the study, and that Ms. McLemore was in the process of gathering the third year of data to be used as a baseline. He further stated, however, that there were still foundations that would not meet one or more of the economic tests, even with three years of data.

Trustee Grendahl asked how the system could remain legally separate from the foundations when the foundation staffs were paid through the college or university. Mr. Asmussen stated that the connection between the colleges and universities and the foundations were structured as an investment, with the expectation that the college or university would receive a dollar for dollar return. Ms. Gail Olson, General Council, stated that board policy and system procedure established limitations on what employees were allowed to do for the foundations. She added that the employees of the college and university were not allowed to engage in management decisions on behalf of the foundation.

Trustee McElroy asked if all scholarship fundraising was done through foundations. Mr. Asmussen stated that state law allowed colleges and universities to solicit gifts directly, and that there were not obligated to use a foundation. Trustee McElroy asked what accountability there was for funds raised outside of the foundation. Ms. McLemore stated that there was communication between the financial aid offices and the foundations. Ms. Olson stated that she had advised the colleges and universities that at times it would be appropriate and advisable for them to be the recipient of a gift, depending on how it was going to be used and who would be responsible for administering it. She added that the donor would receive the same tax treatment as if the gift had been given to the foundation.

Trustee Rice commented that current policy required a college or university to apply for a waiver if they had not met the test of a dollar raised for a dollar spent after three years. She questioned the workability and the enforceability of the policy. Mr. Asmussen stated that policy provision was a recent amendment, and that it had never been used. He added that it was an annual test. He stated that Ms. McLemore had worked to develop a new contract design which included an annual addendum that the foundations were asked to file. The addendum would ascertain how much foundations expected to spend on personnel and how much they expected to return to their institutions. Ms. McLemore added that this was the first year that the request for support administrative services forms had been used and a copy had been received from each college and university. She further added that her office had received two requests for waivers.

Ms. Laura King, Vice Chancellor for Finance, asked if there was any supporting literature for this new way of measuring operating efficiency. Mr. Asmussen stated that the system would be holding itself to the same standards that stand

alone foundations were held to, but he added there wasn't any literature available that related to the unique nature of affiliated foundations and storing costs on the sponsor side. He added that some higher education systems do not provide support to the foundations. He further added that there was variability between the colleges and universities. Some of the foundations had fully reimbursed the colleges for all of their costs and other foundations had not reimbursed the college or university at all. Mr. Asmussen stated that the operating efficiency test would level that playing field between the college and university foundations.

Trustee Benson asked who the regulatory agencies were that had oversight over the foundations. Mr. Asmussen stated that the Office of the Attorney General was the regulator of private non-profits in Minnesota. He added that the Internal Revenue Service could remove the tax exempt status if the foundation was not complying with regulations. Mr. Asmussen also stated that there were donor guidelines put out through the Minnesota Charities Review Council and the Better Business Bureau Wise Giving Alliance that were valuable resources as well. He noted that while these organizations had no regulatory authority over the foundations, they could make donors and potential donors aware if the foundations were not meeting their standards.

Trustee Van Houten asked how the final operating efficiency percentages were calculated. Mr. Asmussen explained that current board test divided the college and university support costs by the total program benefits to determine the cost for every dollar raised. On the donor side, program benefits were divided into total operating spending by the foundation. Finally, he explained that the proposed operating efficiency test would add the college and university support costs to the numerator and denominator of the donor test.

Trustee Dickson suggested that they review how the state of Oregon was testing operating efficiency in their system. She suggested there might be a timeframe for newer foundations to work up to meeting the test. Trustee Dickson asked what authority the board had over the foundations. Ms. Olson stated that the college or university could remove their support and take away the ability of the foundation to use the name of the institution. She added that board policy, and system procedures, and foundation agreements were important and made the rules and expectations clear.

Trustee Paskach asked if the fundraising costs included salaries paid to employers who had positions with other responsibilities not related to fundraising. Mr. Asmussen indicated that great effort had been made to include only the proportion of salaries related to foundation duties.

Trustee Paskach stated that if the committee were to change its way of testing operating efficiency, in most cases the foundations had already been given enough time to become operational, and should be expected to show some results.

Trustee Van Houten stated that there were two issues to be considered, the loss of potential resources to the system if an affiliated foundation were to produce a

poor return for an investor's donation and the second issue would be the risk of embarrassment to the system if it cost a dollar to raise a dollar. Trustee Dickson stated that it was important to consider the president's perspective when evaluating the effectiveness of a foundation and its value to a college or university.

Chair Thiss stated that to maintain oversight with the foundation, he thought the president should either be on the foundation board or be involved in the key board discussions. Mr. Asmussen stated that President Bruininks was on the University of Minnesota foundation board executive committee, which ensured that he was involved in important discussions about the university and was able to achieve strategic alignment. He cautioned, however, that the colleges and universities would also have to ensure that there was enough independence for the foundation to maintain its status as a legally separate entity, which would be a difficult balance.

Trustee McElroy expressed concerns over the state of the foundation audits. He noted that there had been three qualified opinions cited. Mr. Asmussen also stated that three other foundations had not been audited as required by board policy. He further stated that there should be an expectation that those issues would be cleaned up. Mr. Asmussen also stated that twelve of the thirty management letters that came in had material weaknesses cited. He added that some of these findings might be attributable to new audit standards put into place in the previous year. Mr. Asmussen stated that currently board policy required that the foundations submit audit reports, but there was no indication as to the consequences if the audit results were less than desirable.

Ms. Olson clarified that the board would not have oversight over the foundation directly, they would have oversight over the college or university's relationship with the foundation. Chair Thiss asked if the board had the authority to expect accountability from the foundations. Ms. Olson agreed and stated that the board had requirements in current policies and system procedures which set out what had to be in place in order for the college or university to have the kind of agreement that would be allowed. She added that the foundation had to be able to meet certain tests.

Trustee McElroy asked if the committee could be assured that the foundation boards were aware of the audit shortcomings. Mr. Asmussen noted that there had been difficulty finding five management letters. He stated that five of the colleges and universities had not had a good concept as to what a management letter was, and without the management letters it would be difficult to be assured that the governing boards were aware of all of their vulnerabilities. Mr. Asmussen stated that Ms. McLemore had recently sent information out to the development directors, that would educate them on management letters and what they should ask for to ensure that all of the paperwork is being collected.

Chancellor McCormick pointed out that it was not possible under current policies for the chancellor or the president to be a member of the foundation board. Ms.

Olson confirmed that board policy would need to be amended in order for the Chancellor or a president to sit on a foundation board. She cautioned that the issue would be at what point would the college or university, or the system exercise enough control over the foundation to make it a subsidiary or allow a court to consider it to be a part of the system. She added in most cases, the foundation board would be made up of other individuals and that the president would not exercise enough legal authority to change the situation. However she cautioned that a court could review the facts of the arrangement and see something different. She added that another option would be to allow the president to be a non-voting ex officio member. Trustee Dickson stated that if the president were a member of a foundation board, he or she might be more than equal to the other board members because the foundation staff worked for the president.

Trustee Renier asked if the individual auditors should be responsible for supplying the management letters to each foundation board. Mr. Asmussen agreed, but stated that prior to 2007, management letters had not been required to be delivered in writing.

Chancellor McCormick stated his appreciation for the discussion on affiliated foundations. He stated that it was important to understand the lines of accountability and authority, so that in presidential evaluations, the chancellor's role in terms of holding presidents accountable and the authority the presidents would be clear.

Trustee Benson asked if a common set of bylaws would result in a foundation audits that were more similar and provide more accountability. Ms. Olson stated that in order to do business with a foundation, the system could require specific language in their bylaws. She added that the bylaw requirement would have the same effect as including the language in the contract with the foundation.

Chair Thiss requested that the advancement committee review the proposed operating efficiency model and consider using a three-year cycle once that data was available. He stated that there were multiple policy issues for consideration as well as developing clear guidance for the chancellor. He added the audit committee was available to assist as necessary if a joint committee meeting were necessary.

Chancellor McCormick stated that as the system looked into the future, the foundations could become even more important for the success of the colleges and universities through a program of raising money and building partnerships.

Chair Thiss closed the conversation by stating that he viewed the results of the affiliated foundation report as very positive. He stated that the report raised important issues for the system as it prepares for the future.

2. FY 2009 Internal Auditing Audit Plan (*Information Item*)

Mr. John Asmussen stated that board policy required that the internal auditing audit plan be approved by the audit committee each year. He noted that the components of the plan were contained in the board packet and that for the most part the plan was a continuation of the program from prior years, including the flexibility to do one or two systemwide topics during the next year.

Mr. Asmussen stated that part of the discussion would be to review and further develop a list of potential topics to be considered for a systemwide project. He noted that the audit plan did not require choosing a specific topic prior to approval.

Mr. Asmussen reviewed the list of potential topics that had been already identified as possible topics either by a trustee or by the chancellor, and he asked the trustees to add other topics that were of interest. He added that there was also a list of other board policies that might be of interest to trustees. He noted that any one of the items on the list would be a major undertaking for the internal auditing staff. But he added that it might be possible to do one or two smaller projects in addition to one systemwide project.

Mr. Asmussen stated that he would review the full list of topics and would return to the audit committee in January with proposal papers on two or three of the most likely topics for the committee to consider before approving the final selection.

Trustee McElroy suggested a study on accountability for direct or non-foundation fundraising. Trustee Englund suggested an updated study on the postsecondary enrollment options act.

Trustee McElroy also asked about the possibility of reviewing college operated bookstore and food services. Ms. King suggested expanding the scope to include the whole business delivery model of both leased and owned bookstores.

Trustee Van Houten suggested a study to assist the board with the decision of whether to audit more than the twelve colleges and universities. He further suggested that there could be spot audits in areas where there had been findings at the twelve audited colleges and universities, such as the use of credit cards by system employees and presidential expenses reports.

Trustee Dickson suggested a study of Minnesota Online. She stated that there was an assumption that it was less expensive to deliver online education than classroom education, but there had also been information from faculty that suggested there may be difficult issues involved with delivering online courses. She noted that there were more than 55,000 students taking classes online and it would be helpful to study the cost effectiveness and the issues involved with online delivery.

Trustee Van Houten made the following motion and it was seconded by Trustee McElroy:

On September 16, 2008, the Audit Committee reviewed the draft Fiscal Year 2009 Internal Auditing Plan and approved the following motion:

RECOMMENDED MOTION:

The Board of Trustees approves the Office of Internal Auditing annual audit plan for fiscal year 2009.

The meeting adjourned at 1:59 p.m.

Respectfully submitted,
Darla Senn, Recorder