



**AUDIT COMMITTEE
NOVEMBER 18, 2008
8:00 A.M.**

**BOARD ROOM
WELLS FARGO PLACE
30 7TH STREET EAST
SAINT PAUL, MN**

Please note: Committee/Board meeting times are tentative. Committee/Board meetings may begin up to 45 minutes earlier than the times listed below if the previous committee meeting concludes its business before the end of its allotted time slot.

Committee Chair This calls the meeting to order.

- (1) Minutes of September 16, 2008** (pages 1-8)
- (2) Minutes of October 8, 2008** (pages 9-16)
- (3) Review and Approve Release of the Audited Financial Statements** (pages 17-19)

Members

Scott Thiss, Chair
James Van Houten, Vice Chair
Jacob Englund
Dan McElroy
David Paskach

Bolded items indicate action required.

**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

**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 Furtle, 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

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: November 18, 2008

Agenda Item: Review and Approve Release of the Audited Financial Statements

- Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring
- Information

Cite policy requirement, or explain why item is on the Board agenda:

Board Policy 1A.2, part 5, subpart E requires the Audit committee to review the audited financial statements and recommend their release to the Board of Trustees.

Scheduled Presenter(s):

John Asmussen, Executive Director, Office of Internal Auditing
Laura King, Vice Chancellor - Chief Financial Officer
Tim Stoddard, Associate Vice Chancellor for Financial Reporting
Steve Wischmann, partner with Kern, DeWenter, Viere, Ltd,
Daryl DeKam, partner with Virchow, Krause and Company, LLP
Tom Koop, partner with Larson, Allen, Weishair & Company, LLP

Outline of Key Points/Policy Issues:

The system wide and revenue fund audits and the twelve individual audits received unqualified opinion letters from the external auditors. The opinion letters provide the Board and other users of the audits with reasonable assurance that the information is materially accurate and reliable. Auditing standards also require the audit firms to convey certain required communications, including any significant deficiencies or material weaknesses in internal controls, to the Audit committee.

The Audit committee will focus on the work of the external auditors and satisfy itself with the assurances offered by the auditors.

Background Information:

The financial statements were prepared by the Finance division of the Office of the Chancellor with the assistance of the campus Finance departments and have been audited by public accounting firms that were selected by the Board of Trustees.

**BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

BOARD ACTION

**REVIEW AND APPROVE RELEASE OF THE
AUDITED FINANCIAL STATEMENTS**

BACKGROUND

Board Policy 1A.2, part 5, subpart E requires the Audit committee to “review and discuss the results of each audit engagement with the independent auditor and management prior to recommending that the board release the audited financial statements.”

The audited financial statements for the FY2008 activity will be presented at this meeting as follows:

Financial Statements audited by Kern, DeWenter, Viere, Ltd –

1. Systemwide
2. Revenue Fund
3. Minnesota State University, Mankato
4. Minnesota State University Moorhead
5. Winona State University
6. Rochester Community and Technical College
7. Southwest Minnesota State University

Financial Statements audited by Virchow, Krause and Company, LLP -

8. Bemidji State University
9. Minnesota State Community and Technical College
10. St. Cloud State University
11. Hennepin Technical College
12. Metropolitan State University
13. Minneapolis Community and Technical College

Financial Statements audited by Larson, Allen, Weishair & Co, LLP -

14. Century College

AUDIT RESULTS

Copies of the audited financial statements and required communications from the external auditors were provided to members of the Audit Committee for review prior to the meeting on November 18 2008. Public copies of the reports will be available on the Financial Reporting website after November 18 2008.

RECOMMENDED COMMITTEE ACTION:

The Audit Committee has reviewed the fiscal year 2008 audited financial statements and discussed them with representatives of management and the external auditing firms. The committee recommends that the Board of Trustees adopt the following motion:

RECOMMENDED MOTION:

Based on the review and recommendation of the Audit Committee, the Board of Trustees approves the release of the fiscal year 2008 audited financial statements as submitted.