MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES

Agenda Item Summary Sheet

Committee: Audit Committee
Date of Meeting: October 8, 2008

Agenda Item: Review Results of Legislative Auditor Report

☐ Proposed Policy Change  ☐ Approvals Required by Policy  ☐ Other Approvals  ☒ Monitoring

☐ Information

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

This audit was conducted by the Legislative Auditor consistent with the external audit schedule for colleges that are not subject to annual financial statement audits.

Scheduled Presenter(s):

John Asmussen, Executive Director, Office of Internal Auditing
Cecile Ferkul, Deputy Legislative Auditor
Brad White, Legislative Audit Manager

Outline of Key Points/Policy Issues:

➢ The public release of this audit report will occur at the October 8, 2008 audit committee meeting.

Background Information:

➢ The audit scope covered the five colleges in the Northeast Higher Education District, Anoka Ramsey Community College, Fond du Lac Community & Tribal College, Minnesota West Community & Technical College, Minnesota State College – Southeast Technical, and the Office of the Chancellor.
➢ The Office of the Chancellor has a contract with the Office of the Legislative Auditor that provides for periodic audits of colleges.
➢ The audit cycle for the colleges not subject to annual financial statement audits (generally the smaller colleges) is approximately one audit every three years.
BACKGROUND

Attached is a copy of the Legislative Auditor’s report on the results of its financial audits of nine colleges and the Office of the Chancellor. The audit was conducted pursuant to a contractual agreement that the Minnesota State Colleges and Universities has executed with the Office of the Legislative Auditor. The contract allows the Minnesota State Colleges and Universities to supplement the work of the Certified Public Accounting firms that audit the annual system-wide financial statements and the financial statements of the seven state universities and five of the largest colleges. Essentially, the Legislative Auditor follows a three-year rotating schedule to audit the colleges not subject to annual financial statement audits.

The entities covered by this audit report include:

- Colleges in the Northeast Higher Education District
  - Hibbing Community & Technical College
  - Itasca Community College
  - Mesabi Range Community & Technical College
  - Rainy River Community College
  - Vermilion Community College
- Anoka Ramsey Community College
- Fond du Lac Tribal & Community College
- Minnesota State College – Southeast Technical
- Minnesota West Community & Technical College
- Office of the Chancellor

The Legislative Auditor examined financial transactions occurring during fiscal years 2005 to 2007. Their audit focused on the most significant financial cycles and included testing of the internal controls and compliance with relevant legal provisions.

ANALYSIS OF AUDIT RESULTS

The report cites 25 findings for these ten entities (see Figure 1 for how Internal Auditing classifies the audit findings). In their presentation to the Audit Committee on October 8, 2008, representatives of the Legislative Auditor plan to focus attention on eight of the more significant findings, particularly findings that may have some system-wide implications. In addition, Internal Auditing will point out parts of five other findings that are significant to individual colleges.
Figure 1: Internal Auditing Analysis of Legislative Audit Report

<table>
<thead>
<tr>
<th>Audited Entity</th>
<th>Significant System-wide</th>
<th>Other System-wide</th>
<th>Significant to Institution(s)</th>
<th>Other Institutional Matters</th>
<th>Number considered significant by Internal Auditing</th>
<th>Number of Findings Cited in Last Legislative Audit Report</th>
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<td>Banking &amp; HR Payroll</td>
<td>Tuition/Receivables</td>
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- **= The Legislative Auditor cited a similar finding in its last audit of this institution.
- **= Findings that the Legislative Auditor intends to emphasize to the MnSCU Audit Committee.
- **= Internal Auditing classified as significant.
- **= Internal Auditing classified as limited impact (management issues that need not be elevated to the board).
Significant System-wide Findings (3 findings)

- Finding 1 addresses security clearances to computerized financial systems. Internal Auditing concurs that this finding is significant for two colleges that have not resolved prior audit findings related to security clearances: Fond du Lac Tribal & Community College and Itasca Community College. The auditor also observes that these small colleges have assigned multiple duties to some employees that require supervisors to monitor transactions after-the-fact to detect any questionable activity. The auditor acknowledges recommends that the Office of the Chancellor provide guidance for improving the documentation of these monitoring activities.

- Finding 4 recommends that eight colleges develop formal agreements for their banking relationships. It also recommends that the Office of the Chancellor revise procedures pertaining to banking relationships.

- Finding 13 addresses a variety of errors found in vacation and sick leave records maintained for faculty members and administrators. Leave accounting is a manual process and involves interpreting some complex provisions in labor agreements; hence, there is a risk of errors occurring. The auditors recommend more diligence in maintaining these records, and creation of a more rigorous procedure for calculating the amount of separation payments.

Other System-wide Findings (3 findings)

- Finding 5 recommends destroying credit card documentation more timely. The auditors did find that the colleges were securing this documentation adequately, but urged the colleges to accelerate the schedule for destroying the documentation when it was no longer needed. The Office of the Chancellor recently launched a system-wide assessment of compliance with credit card security standards that should address this issue.

- Finding 9 and Finding 10 cited five colleges for not fully applying tuition rates as approved by the Board of Trustees. Although the dollar amounts in question were insignificant, the auditors were concerned about the frequency of this citation.

Significant Institutional Findings (7 findings; Findings 2 & 3 to be highlighted by OLA)

- Finding 2 cited Rainy River Community College for failing to reconcile its accounting records to its bank statement timely.

- Finding 3 cited Minnesota West Community & Technical College because its bank did not maintain the level of collateral required by state law.

- For Finding 6, Internal Auditing considers sharing cash drawers in the business office to be a significant issue for Fond du Lac Tribal & Community College and Hibbing Community College.
• For Finding 7, Internal Auditing considers the lack of adequate documentation for supporting voided or negative receipt transactions to be a significant issue for Anoka Ramsey Community College and Rainy River Community College.

• For Finding 8, Internal Auditing considered the extent of missing receipt records to be a significant issue for Minnesota West Community & Technical College and Fond du Lac Tribal & Community College.

• For Finding 12, Internal Auditing considered the student registration process to be a significant departure from a system procedure.

• For Finding 18, Internal Auditing considered the institutional credit card processes used by Fond du Lac Community & Tribal College and Minnesota State College – Southeast Technical to have significant deficiencies.

Other Institutional Findings (12 findings)

The remaining twelve findings reported by the Legislative Auditor pertain to more isolated or less consequential matters. These findings, nonetheless, will be taken seriously and corrective action is expected.

RESPONSE TO THE REPORT

Vice Chancellor Laura King has collected responses from the individual colleges and prepared a system response to the audit report. The response is attached to final audit report and indicates concurrence with the audit findings and the details of intended corrective actions.

MONITORING CORRECTIVE ACTIONS

The Office of Internal Auditing will monitor the progress made toward resolving these audit findings. It will provide presidents with periodic reports on the status of their respective audit findings. Internal Auditing also provides a year-end status report on prior audit findings to the Chancellor, so he can discuss any unresolved audit findings with presidents as part of their annual performance reviews. Finally, as part of its annual report to the Board of Trustees, Internal Auditing provides a summary report on the status of prior audit findings.

Additional copies of the final report may be obtained from the Office of the Legislative Auditor web site: www.auditor.leg.state.mn.us starting on October 8, 2008.

Date Presented to the Board of Trustee: October 8, 2008