

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE
MEETING MINUTES
January 21, 2009**

***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, Allyson Lueneburg, David Olson, Tom Renier, Louise Sundin, and Terri Thomas.*

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

The Minnesota State Colleges and Universities audit committee held its meeting on January 21, 2008, at Saint Paul College, Room 4310, 235 Marshall Avenue in St. Paul. Chair Thiss called the meeting to order at 9:02 a.m.

Approval of the Audit Committee Meeting Minutes

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

1. Review Legislative Auditor Report on the Use of General Obligation Bonds (Information Item)

Mr. John Asmussen, Executive Director of the Office of Internal Auditing, explained that the Office of the Legislative Auditor has independent statutory authority to audit state government and that last year they chose to examine the issue of state bond proceeds statewide. He stated that they had issued a report in December 2008 which cited issues with several agencies including the Minnesota State Colleges and Universities.

Mr. Asmussen introduced Mr. Jim Riebe Audit Manager from the Office of the Legislative Auditor. Mr. Riebe introduced Ms. Amy Jorgenson who was the lead supervisor on the audit and Mr. David Westin who was responsibility for planning and supervising the work that was done on for the Minnesota State Colleges and Universities. Mr. Riebe reviewed the scope of the audit. He stated that the overall conclusions were that internal controls generally were adequate to ensure resources were safeguarded, financial information was reliable, and expenditures complied with legal requirements, with the exception of four findings.

The first finding stated that the Minnesota State Colleges and Universities did not have a clear process to connect internal project management costs to specific projects. He stated that the Department of Finance had consulted with bond council and they

had determined that when project management fees were charged to general obligation bond proceeds, those costs had to be tied to a capital project. He further stated that in her response to the audit, Ms. Laura King, Chief Financial Officer, disagreed with the finding. She stated that the process in place did provide assurance that the costs were related to the capital projects, but not to the degree that the policy required. Mr. Reibe stated that the concerns expressed in Ms. King's response were similar to concerns expressed by other agencies that were included in the scope of the audit. Ms. King stated that she would have further discussions with the Department of Finance.

Trustee Thiss asked what was meant by a clear process to connect internal project management costs to specific projects. Mr. Riebe stated specific costs might constitute a cost accounting system. Mr. Asmussen explained that in the past there was a flat fee charged to every project to cover the management oversight and guidance costs. He stated that the finance division had since introduced a variable rate to provide better connectivity between a particular project and the management fee that was charged to it. He added that Ms. King's conversation with the Department of Finance would determine if there was a need to get even more specific.

Chancellor McCormick asked when they might expect that the issue would be resolved. Ms. King stated that the issue would be resolved before the 2010 bonding bill was affected.

The second finding was in regards to ineligible costs charged to bond funds, including catering, tools, moving costs, and ineligible projects. Mr. Riebe stated that in response to the audit, the Minnesota State Colleges and Universities had repaid the bond funds for the ineligible costs. He noted that Ms. King would have further discussions with the Department of Finance regarding the policy matters associated with this finding and that her concerns were a common response by other agencies to the audit finding.

Trustee Van Houten asked if there was a different policy for government agencies than for the private sector in terms of moving costs. Ms. King explained that the policies were the same but that there had been a number of conflicting legal opinions over the years in terms of new construction vs. remodeling.

Finally, Mr. Riebe reviewed the last two findings which were both related to the purchase and lease back of the Health Partners Building at St. Cloud Technical College. He noted that there had been a lot of discussion about this issue and he further noted that the Office of the Legislative Auditor did not question the decision to purchase the building but there were legal requirements associated with the use of general obligation bond proceeds that needed to be addressed.

Mr. Riebe stated that the first part of the finding had to do with the requirement that a declaration be filed in the county where the purchase was done in order to safeguard the state's position with title to the building. If the building were sold, the Commissioner of Finance would determine whether proceeds from the sale would be

used to pay off the outstanding debt service. Ms. King stated that the declaration was filed by the end of the last calendar year.

Mr. Riebe stated that the second part of the finding dealt with whether or not the purchase and lease back of the property complied with the state constitution requirement that there be a public purpose associated with the purchase and the state statutory requirement that a governmental program needed to be supported by the use of the funds. He further stated that state statute also required that lease revenues be deposited back into the debt service fund. Mr. Riebe stated that the complication with the Minnesota State Colleges and Universities and other higher education organizations was the requirement for them to repay one third of the debt service.

Trustee Thiss asked if the system would need to repay all of the lease proceeds or just the one third. Ms. King noted that they were in discussions with the Department of Finance. She stated that initially the expectation was that there would be a relatively short-term lease back while Health Partners vacated and found a new site. The college had moved programs into the building and was effectively co-programming with Health Partners, but the term of the lease needed to be lengthened as Health Partners site search process took longer than expected. Ms. King further noted that Health Partners was vacating the site and the board should expect to see a capital request in the 2010 program.

Trustee McElroy noted that if St. Cloud Technical College had documented the request to purchase the building for the purpose of occupying it in three and a half years, but that it wouldn't be available until then, there would be a public policy argument that the purchase was consistent with the intent of the constitution and the precedence. Ms. King stated that would be her approach in her discussions with the Department of Finance.

Ms. King stated that she was pleased with the audit results. Trustee Thiss thanked the Office of the Legislative Auditors for their good work. He noted that the audits were helpful in the system's effort to continuously improve and strengthen internal processes.

2. Select Internal Audit Topic for FY 2009 (*Action Item*)

Mr. Asmussen stated that as part of the internal audit plan which was approved in September, the committee could select an internal audit topic for further review by the internal auditing staff.

Mr. Asmussen reminded members that for much of the year, staff resources were dedicated to the financial statement audits, follow-up work, and federal program compliance auditing. He further stated that more internal audit resources were needed to assist the Legislative Auditor in fulfilling its contract this year as well.

Mr. Asmussen recommended, based on the current budget challenges facing the state, that the Office of Internal Auditing should conduct a review of the supplemental and auxiliary revenue sources. He stated that the biggest sources were likely bookstores and food services, but he estimated that there might be thousands of activities that generate auxiliary revenues on the campuses. He stated that the first phase of the project would be to inventory the supplemental revenue sources by campus, adding that the value of that list would give campuses across the system information to consider about additional revenue opportunities. He informed the committee that the first phase could be completed by May of this year so that the information could be used early enough in the budget strategy operations of the campuses in the next biennium.

Mr. Asmussen explained that the second phase of the project would be to examine the control structures for the major revenue sources identified in the first phase. He pointed out that there had been some findings in past Legislative Auditor reports related to some of the supplemental revenue sources when proceeds were collected outside of the business office. Mr. Asmussen proposed presenting the second phase of the project to the committee in September.

Mr. Asmussen then reviewed some of the other possible audit topics which included information technology and the costs associated with supporting diversity programs.

Trustee Benson encouraged the audit committee to consider further review into the area of diversity and multiculturalism. Trustee Thiss stated that there was a project currently underway to try to identify the funding for diversity and multiculturalism. Ms. King stated that modifications to the accounting system were completed in January to capture the amount of money that was being spent on diversity and multiculturalism activities in a more uniform and objective manner. She stated that she and Vice Chancellor Whitney Harris would bring those results to the board at a future date. Trustee Benson asked if it would also be possible to identify whether the money was state or federal funds and Ms. King agreed that information would be part of the report.

Trustee McElroy stated that he liked the way that the supplemental and auxiliary revenue sources project was framed because it was more inclusive than just bookstores and food service. He asked if admissions revenues to sporting or special events were considered auxiliary revenue. Mr. Asmussen assured him that any funds generated by extracurricular activities would be included.

Trustee Paskach supported the supplemental and auxiliary revenue sources project as well. He asked if the project would review services, such as bookstores and food serves, that were contracted out and services that were managed in-house, and if the project might indicate whether one method was more beneficial over the other. Mr. Asmussen agreed that it was an operational issue that would be reviewed as part of the scope for that second phase.

Trustee Englund asked if the scope of the project would look into how books were recommended to student by professors and whether the bookstores were following the new federal bill related to book bundling. Ms. King agreed that advancing the discussion of textbooks was important for the system. She added that the auxiliary revenue sources project would provide foundational information about how bookstores operated and about the business models across the institutions, both from a delivery method and from a P&L standpoint. She noted that the book bundling legislation might be too new to be included in the scope at this time.

Trustee Van Houten also supported the proposed project. He asked whether service training provided to employers would be included as an auxiliary revenue source. Mr. Asmussen explained that those services were related to customized training and would not be part of the project scope.

Trustee Van Houten asked if it would be possible to assess the profitability of the activities being reported. Mr. Asmussen stated that they intended to have a conversation with each college and university as to how sensitive they were to the issue of profitability of their activities and how they factored that into their revenue generating activity.

Trustee Paskach made the following motion and it was seconded by Trustee Englund:

The Audit Committee has reviewed topics that Internal Auditing could study as possible system-wide projects in fiscal year 2009. Based on its review, 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 Office of Internal Auditing conducting a system-wide study of auxiliary revenues during fiscal year 2009.

3. Review External Audit Plan and Select Colleges Subject to Annual Financial Statement Audits (Action Item)

Mr. Asmussen stated that there were six audit contracts of colleges and universities that were expiring and that all six colleges and universities had had their annual financial statements audited by the same firms over the last six years. He reminded members that board policy required a rotation of external auditors every six years

Mr. Asmussen reviewed the schedule of standalone audits and the percentage of system assets and operating expenses of each. He recommended that the committee continue to include the six institutions in the audit rotation, stating that the contract with the principal auditor assured that the system would provide independent audits of individual colleges accounting for 60% of the financial activity. He further stated that the audits provided business value to the institutions allowing them to

demonstrate their accountability and solid financials when renewing accreditation, and when generating grant revenues and donations.

In addition, Mr. Asmussen stated that he and Ms. King had reviewed the idea of adding additional campuses to the audit rotation or substituting a new campus for one on the established list. He stated that the colleges and universities had gained a lot by having annual audits and they would not recommend removing one of the institutions from the rotation. He stated that they had reviewed the list of non-audited colleges for the possibility of adding another campus to the rotation.

The Northeast Higher Education District was the largest college, but he added that it would require the auditors to conduct five separate audits because of the number of campuses. Mr. Asmussen stated that Normandale Community College was larger than many of the college which were currently included in the rotation. He added that after conversations with the president and with the vice president for finance, he would recommend that Normandale Community College was ready to move forward to become part of the annual audit cycle. Mr. Asmussen explained that adding a new institution into the audit rotation would place additional burdens on the campus and on Ms. King's staff. He recommended that steps be taken to add Normandale Community College into the audit rotation, but that the system retain the option to add the college next year after it was determined that it was ready to be included. He stated that Normandale Community College could be included in the RFP process this year, but with the intention that it be added in the 2010 cycle.

Trustee Thiss stated that he would support the idea of a gradual rotation. Trustee Englund made the following motion and it was seconded by Trustee McElroy: *The Audit Committee has reviewed the external audit plan and selected the colleges and universities subject to annual financial statement audits for Fiscal Years 2009-2011 and financial audits conducted by the Legislative Auditor during fiscal year 2009. 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 Executive Director of Internal Auditing and Vice Chancellor for Finance issuing a Request for Proposals to solicit bids from certified public accounting firms interested in conducting annual financial statement audits of the following colleges and universities:

- *For fiscal years 2009 to 2011: Century College, Hennepin Technical College, Metropolitan State University, Minneapolis Community and Technical College, Rochester Community and Technical College, and Southwest Minnesota State University.*
- *Contract option for fiscal years 2010 and 2011: Normandale Community College.*

Furthermore, based on the review and recommendation of the Audit Committee, the Board of Trustees approves the Executive Director of Internal Auditing and Vice Chancellor for Finance making arrangements with the Legislative Auditor to conduct periodic financial audits of colleges not subject to annual financial statement audits.

The meeting adjourned at 9:56 a.m.

Respectfully submitted,
Darla Senn, Recorder