MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES

Agenda Item Summary Sheet

Committee: Audit Committee  Date of Meeting: March 17, 2009

Agenda Item: Select External Auditors for Institutional Financial Statement Audits

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

☐ Information

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

Board Policy 1.A.2. Part 5, Subpart E charges the Audit Committee with oversight of external auditors. To fulfill that responsibility, it is crucial that the committee select external auditors to recommend for appointment by the full Board of Trustees.

Scheduled Presenter(s):

John Asmussen, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- The two state universities and five two-year colleges covered by this action have just completed three-year contracts with external auditors. New contracts are needed to engage external auditors for the next three years.
- Board Policy 1A.2, Part 5, Subpart E states that “An independent audit firm may not be appointed to a particular engagement for more than six consecutive years.” All six of the institutions have had the same auditing firm for six consecutive years. Those firms will not be eligible to bid on the same institutions during this contracting cycle.
- Proposing a contract option for Normandale Community College for fiscal years 2010 and 2011.

Background Information:

- A competitive bidding process began in February to contract with an external auditor to provide external audit service for seven colleges and universities for fiscal years 2009 to 2011.
- Six firms submitted proposals to a Request for Proposal.
SELECT EXTERNAL AUDITORS FOR
INSTITUTIONAL FINANCIAL STATEMENT AUDITS

BACKGROUND

Century College, Hennepin Technical College, Metropolitan State University, Minneapolis Community and Technical College, Rochester Community and Technical College and Southwest Minnesota State University have just completed three-year contracts with external auditors. At its January meeting, the audit committee approved the contract option to solicit external auditing services for Normandale Community College for fiscal years 2010 and 2011. The Executive Director of Internal Auditing and the Vice Chancellor – Chief Financial Officer have led an effort to identify external auditors that the Board of Trustees could select for new three-year contracts. The Board of Trustees holds the ultimate responsibility, though, for selecting external auditors. The Audit Committee, pursuant to Board Policy 1.A.2. Part 5, Subpart E, must select the external auditing firms to recommend to the full Board of Trustees for appointment.

Board Policy 1A.2, Part 5, Subpart E. states that “An independent audit firm may not be appointed to a particular engagement for more than six consecutive years.” Six of the institutions have had the same auditing firms for six consecutive years. Those firms will not be eligible to bid on the same institutions during this contracting cycle.

The MnSCU Office of Internal Auditing and the MnSCU Finance Division prepared a request for proposals (RFP) to solicit interest in these audits. A copy of the RFP summary was published in the State Register on February 2, 2009. The RFP was distributed to interested public accounting firms. The RFP sought external auditing services for six institutions on an annual basis for a three-year period from July 1, 2009 to June 30, 2011, with a contract option for Normandale Community College from July 1, 2010 to June 30, 2011. The deadline for submitting proposals was February 27, 2009.

Six public accounting firms responded to the RFP and submitted proposals to some or all of the seven institutions. The proposals were reviewed by representatives of the Office of Internal Auditing, MnSCU Finance Division, and the seven colleges and universities that were subject to audit. This group evaluated the four selection criteria cited in the RFP, as follows, in developing a recommendation for the Audit Committee:

- Qualifications – All six firms met the minimum requirements cited in the RFP and were eligible to be considered for these engagements. The Minnesota State Colleges and Universities has received external auditing services for the past several years from three
of the proposing firms: Kern, DeWenter, Viere (KDV); LarsonAllen; and Virchow Krause. The service provided by these firms consistently has been excellent and the review group had no reservations about using these firms again in the future. Two of the proposing firms: Abdo, Eick & Meyers and HLB Tautges Redpath had no prior experience with auditing higher education institutions. Both firms had good experience auditing in the public sector and some members of the review group had very positive prior experience with these firms. Yet, their lack of higher education experience remained a concern. The final firm, WIPFLi, presented a strong proposal and cited its experience with auditing several public and private colleges and universities.

- Understanding of the objectives – All six firms demonstrated a good understanding of the objectives and were considered to be good potential service providers.

- Work Plan – From the perspective of the Office of the Chancellor and the seven colleges and universities, the most efficient work plan option was to use the three firms with prior MnSCU audit experience. There would be additional time and effort needed to acclimate a new firm to this process and environment. Furthermore, the review group preferred that the audits be balanced between three firms. Two firms, KDV and Virchow Krause, each were currently under contract for audits of three other MnSCU colleges and universities. KDV also had one year left on its contract to serve as principal auditor for the system. To achieve balance between the three firms, 4-5 audits would have to be awarded to LarsonAllen and 1-2 audits to the KDV and Virchow Krause.

- Cost – The pricing offered by five of the firms was very competitive for some or all of the audits and presented the review group with options to assemble pricing packages that were at or below the cost of previous audits for the six colleges and universities. The WIPFLi proposal, though, was priced at about 30-50% higher than the lowest cost alternative; thus, the review group concluded that it was not cost competitive and should be eliminated from consideration. The LarsonAllen proposal offered an escalating discount scheme that dropped the prices for each additional audit awarded to them. Thus, the lowest cost alternative would have resulted in awarding six of the seven audits to LarsonAllen (they were not eligible to bid on one college because they had served as its auditor for the prior six years).

Based on the review group’s consideration of these four selection criteria, it developed the recommendation shown in Table 1 for the Audit Committee to consider. Although not the lowest price option, the recommendation represented a cost reduction for the six recurring college and university audits (as a group, these six audits would cost 3.8% less in 2009 than in 2008). Also, because the LarsonAllen proposal had no inflation built into the pricing, the package cost for the six audits would remain below the 2008 cost for both 2010 and 2011.
Select External Auditors for Institutional Financial Statement Audits  
- Revised Agenda Item  
March 17, 2009

Table 1. Recommended Audit Firms for Fiscal Years 2009-2011

<table>
<thead>
<tr>
<th>College/University</th>
<th>Recommended Firm</th>
<th>2009 price</th>
<th>2010 price</th>
<th>2011 price</th>
<th>%Change from 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Century College</td>
<td>Virchow Krause</td>
<td>$26,200</td>
<td>$27,300</td>
<td>$28,300</td>
<td>+3.1%</td>
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<tr>
<td>Hennepin TC</td>
<td>KDV</td>
<td>$23,500</td>
<td>$24,125</td>
<td>$24,750</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Metropolitan State Univ</td>
<td>LarsonAllen</td>
<td>$24,610</td>
<td>$24,610</td>
<td>$24,610</td>
<td>-6.6%</td>
</tr>
<tr>
<td>Minneapolis CTC</td>
<td>LarsonAllen</td>
<td>$25,715</td>
<td>$25,715</td>
<td>$25,715</td>
<td>0.0%</td>
</tr>
<tr>
<td>Rochester CTC</td>
<td>LarsonAllen</td>
<td>$24,548</td>
<td>$24,548</td>
<td>$24,548</td>
<td>-7.4%</td>
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<tr>
<td>Southwest Mn State Univ</td>
<td>LarsonAllen</td>
<td>$24,548</td>
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<td>$24,548</td>
<td>-10.7%</td>
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<tr>
<td>Normandale CC</td>
<td>KDV</td>
<td>n/a</td>
<td>$23,500</td>
<td>$24,125</td>
<td>n/a</td>
</tr>
<tr>
<td>Package Price</td>
<td></td>
<td>$149,121</td>
<td>$174,346</td>
<td>$176,596</td>
<td>-3.8%</td>
</tr>
</tbody>
</table>

Notes:
(1) The LarsonAllen and Virchow Krause prices include an estimated $300 of out-of-pocket expenses for metropolitan area colleges and $3,000 for institutions in greater Minnesota. The KDV proposals included out-of-pocket expenses.
(2) Normandale has not had an audit previously and 2009 would be used as a transition year. The decision to add it to the audit schedule could be revisited next year, if warranted.

RECOMMENDED COMMITTEE ACTION

The Audit Committee recommends that the Board of Trustees approve the following motion:

RECOMMENDED BOARD OF TRUSTEES MOTION

The Board of Trustees approves the appointment of Kern, DeWenter, Viere, Ltd.; Virchow, Krause and Company, LLP; and LarsonAllen to serve as external auditors for seven colleges and universities. The firm of Kern, DeWenter, Viere, Ltd. will serve as external auditor for Hennepin Technical College and Normandale Community College. The firm of Virchow, Krause and Company, LLP will serve as external auditor for Century College. The firm of LarsonAllen will serve as the external auditor for Metropolitan State University, Minneapolis Community & Technical College, Rochester Community & Technical College, and Southwest Minnesota State University. The scope of these audit services shall include an annual audit of the general financial statements of the above mentioned colleges and universities. The term of these appointments begins upon execution of contracts and shall continue to fulfill external auditing needs for the three fiscal years from July 1, 2008 to June 30, 2011, with the exception of the audit of Normandale Community College which shall be for the two fiscal years from July 1, 2009 to June 30, 2011.

The Board of Trustees authorizes the Executive Director of Internal Auditing and the Vice Chancellor/Chief Financial Officer to negotiate contracts with Kern DeWenter, Viere, Ltd., consistent with the terms contained in its proposal dated February 20, 2009; with Virchow, Krause and Company, LLP, consistent with the terms contained in its proposal dated February 27, 2009; and with LarsonAllen consistent with the terms contained in its proposal dated February 20, 2009.

Date Presented to the Board of Trustee: March 17, 2009