Committee Chair Thiss calls the meeting to order.

(1) Minutes of January 21, 2009 (pages 1-7)
(2) Select External Auditors for Institutional Financial Statement Audits (pages 8-9)
(3) Results of Annual Student Financial Aid Audit (pages 10-11)
(4) Office of the Legislative Auditor’s Program Evaluation of Occupational Program (pages 12-14)

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

Bolded items indicate action required.
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 students 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
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.
BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD ACTION

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.

Information on the proposals recommended for consideration will be delivered to the committee members prior to the March 17, 2009 meeting. Materials will also be made available to the public at the committee meeting.

*Date Presented to the Board of Trustee: March 17, 2009*
Committee: Audit Committee  Date of Meeting: March 17, 2009

Agenda Item: Results of Annual Student Financial Aid Audit

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 charges the Audit Committee with overseeing the work of external auditors.

Scheduled Presenter(s):

Beth Buse, Deputy Director, Office of Internal Auditing
Christopher Halling, System Director for Financial Aid
Steve Wischmann, Partner with Kern, DeWenter, Viere, Ltd.

Outline of Key Points/Policy Issues:

- The audit report cites no significant deficiencies or material weaknesses. It contains three administrative findings related to improvements needed to comply with certain federal financial aid regulations.

Background Information:

- Federal law requires an annual audit of major federal financial assistance programs, including the student financial aid programs.
- MnSCU received $189 million in federal grants and student borrowed over $426 million of federal loans in fiscal year 2008.
- The firm of Kern, DeWenter, Viere, Ltd. conducted the audit as part of its responsibilities as principal auditor for MnSCU.
BACKGROUND

Copies of this report will be delivered to the audit committee members in advance of the March 17, 2009 meeting. These materials will also be made available to the public at the March meeting. The report will be prepared by the firm of Kern, DeWenter, Viere, Ltd. as part of its responsibilities as principal auditor for the Minnesota State Colleges and Universities. The results of this report will be incorporated into the State of Minnesota’s Single Audit Report that will be released at the end of March. Copies of that report will be available at the end of March on the Minnesota Department of Finance web site at (http://www.finance.state.mn.us/fin/acct).

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

Agenda Item: Office of the Legislative Auditor’s Program Evaluation of Occupational Programs

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

☐ Information

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

This program evaluation was conducted by the Legislative Auditor at the request of legislators.

Scheduled Presenter(s):
James Nobles, Legislative Auditor
Jody Hauer, Project Manager
Valerie Bombach, Program Evaluator

Outline of Key Points/Policy Issues:

- The public release of this report will occur on Monday, March 16, 2009. Therefore, the contents may not be disclosed publicly prior to that time.

Background Information:

- The evaluation was authorized by the Legislative Audit Commission. It will examine the criteria and processes MnSCU has used to add, change, and close occupational programs. It will assess the roles of individual colleges, the Office of the Chancellor, and the Board of Trustees, as well as the impact of state and federal laws. It will also examine how factors, such as employment trends, affect MnSCU’s programming.
BOARD INFORMATION

OFFICE OF THE LEGISLATIVE AUDITOR’S
PROGRAM EVALUATION OF OCCUPATIONAL PROGRAMS

BACKGROUND

The attached project description from the Office of the Legislative Auditor describes the scope and objectives of this study.

Advance copies of this report will be delivered to trustees prior to the March 17, 2009 audit committee meeting. 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 March 16, 2009.
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MnSCU Occupational Programs

Project Description June 2008

BACKGROUND
The Minnesota State Colleges and Universities (MnSCU) system offers higher education programs across the state through 25 community and technical colleges and 7 state universities. This evaluation will focus on MnSCU’s occupational programs, which are designed to prepare students for specific jobs. MnSCU offers these types of programs largely through its two-year community and technical colleges.

EVALUATION QUESTIONS
1. How well does MnSCU consider and respond to market conditions and employer needs for its occupational programs? How do MnSCU’s processes for opening or closing occupational programs compare with generally accepted standards for meeting employers’ needs?

2. How well does MnSCU coordinate with workforce centers and other public entities that provide workforce services and training in Minnesota?

3. How well does MnSCU communicate program-performance results and labor market needs to students? How does MnSCU evaluate the performance of its occupational programs?

SCOPE AND METHODS
The evaluation was requested by legislators and authorized in late March 2008 by the Legislative Audit Commission. It will examine the criteria and processes MnSCU has used to add, change, and close occupational programs. It will assess the roles of individual colleges, the Office of the Chancellor, and the Board of Trustees, as well as the impact of state and federal laws. It will also examine how factors, such as employment trends, affect MnSCU’s programming.

MnSCU is the primary focus of the evaluation, but we will also review the roles played by other agencies, such as the Department of Employment and Economic Development (DEED) and the Minnesota Office of Higher Education. In addition, we hope to speak with staff from certain postsecondary institutions other than MnSCU to learn about those institutions’ processes for adding or changing occupational programs. We will also interview representatives of employers, licensing boards, and trade groups with apprenticeship programs.

Using data from DEED and the U.S. Bureau of Labor Statistics, we will analyze trends and forecasts for jobs, labor markets, and other employment-related measures. We will analyze a sample of MnSCU occupational programs in the context of regional employment rates and job vacancies. Because federal law requires MnSCU to participate in the “one-stop delivery system” for workforce development, we plan to evaluate coordination among MnSCU, Minnesota’s workforce centers, and others involved with delivering workforce services.

We plan to interview MnSCU trustees as well as faculty, administrators, and program advisory committees at MnSCU institutions and staff in the Office of the Chancellor. In some cases, such as with members of advisory committees, we will collect opinions using surveys. We will review the program planning and management activities of MnSCU’s colleges and the Office of the Chancellor. Based on national literature, we will identify standards necessary for optimal responsiveness to employers and determine how well MnSCU meets them. We plan to examine the methods MnSCU follows to report rates of graduates employed in jobs related to their fields of study. We will assess MnSCU colleges’ career counseling and job placement services. We plan to review the colleges’ mission statements and strategic plans. To understand how MnSCU colleges evaluate their programs, we will also analyze their recent program reviews, which Board policies require institutions to undertake.

We expect to issue a report in late January 2009. For more information, contact Jody Hauer, evaluation manager, at jody.hauer@state.mn.us or 651-296-8501.