



**AUDIT COMMITTEE
MAY 20, 2009
8:30 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 March 17, 2009** (pages 1-5)
- (2) Review Preliminary Auxiliary Revenue Sources Report** (pages 6-7)

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
March 17, 2009**

***Audit Committee Members Present:** Trustees Scott Thiss, Chair; Jacob Englund, Dan McElroy, and James Van Houten.*

***Audit Committee Members Absent:** Trustee David Paskach.*

***Other Board Members Present:** Trustees Duane Benson, Cheryl Dickson, Ruth Grendahl, David Olson, Tom Renier, Christine Rice, 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 March 17, 2009, at Wells Fargo Place, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair Thiss called the meeting to order at 11:20 a.m.

Approval of the Audit Committee Meeting Minutes

Chair Thiss called for a motion to approve the January 21, 2009 Audit Committee Meeting minutes. The Chair moved to approve the minutes, there was no dissent and the motion carried.

1. Select External Auditors for Institutional Financial Statement Audits (Action Item)

Mr. John Asmussen, Executive Director of the Office of Internal Auditing, reported that three firms were being recommended to conduct the audits for the six colleges and universities whose audit contracts had expired. Mr. Asmussen reminded the committee that board policy allowed an audit firm to serve the same institution for a maximum of six consecutive years. He further stated that in this round of audits, all six colleges and universities had reached the end of their six year maximum time period which would require an automatic rotation of auditors. Mr. Asmussen further recommended that Normandale Community College be added to the audit rotation in 2010. A Request for Proposals (RFP) was issued in February and six firms submitted proposals which were reviewed in late February.

Mr. Asmussen informed the committee that the prices quoted for the 2009 audits were lower cost proposals than 2008. He further stated that the other factor that was considered was balance in the work plan. He explained that the proposed recommendation result in each of the three firms being responsible for audits of four or five institutions, when continuing audit assignments were considered.

Trustee Van Houten disclosed that he used the firm of Virchow Krause and Company as the CPA firm for his consulting business. He stated that there was no material conflict of interest, but asked that it be made a matter of record.

Trustee McElroy made the motion and it was seconded by Trustee Englund.

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, 2009 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, 2010 to June 30, 2011.¹

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.

2. Results of Annual Student Financial Aid Audit (Information Item)

Mr. John Asmussen, introduced Ms. Beth Buse, Deputy Director of Internal Auditing, Mr. Chris Halling, System Director for Student Financial Aid, and Mr. Steve Wischmann, Principal Auditor with Kern DeWenter, Viere, Ltd.

Ms. Buse explained that federal law required an annual audit of the federal financial aid programs. Kern, DeWenter, Viere had conducted this audit as part of its role as the principal auditor for the system. The results of the audit and the findings and recommendations were incorporated into the State of Minnesota's Single Audit Report which will be issued to the federal government by the Minnesota Department of Finance by the end of March, 2009.

¹ NOTE TO BOARD MEMBERS: The motion approved by the audit committee erroneously stated the beginning of the three fiscal years as July 1, 2009 and the two fiscal years as July 1, 2010. The correct start dates for the three fiscal years as July 1, 2008 and for the two fiscal years as July 1, 2009. The other supporting materials and discussion at the meeting, however, made the audit committee's intentions clear as to the auditor selection and the correct audit periods. Based on the Chancellor's authority to enter into contracts, staff have accordingly proceeded with execution of the necessary agreements.

Ms. Buse provided background and context for the report. She stated that there had been a 16% increase since 2007 in federal loans received by students. She noted that on average in 2008, students receiving federal assistance received about \$5000 a year in loans and about \$2,500 in grant aid. Ms. Buse further noted that both amounts had increased from the prior year.

Mr. Wischmann presented the findings of the audit. Mr. Wischmann stated that there were no questioned costs as a result of the audit test work of the institutional attributes. He stated that the system had shown progress over the past several years, and he congratulated the system on the significant improvement in 2008.

Mr. Wischmann reviewed the three findings that were reported. He noted that the number of findings in 2008 was down from eight findings in the previous year. He further noted that the findings were not systemic issues. Finally, Mr. Wischmann stated that there were no outstanding program reviews, and that there was one unresolved prior audit finding.

Mr. Halling recognized the tremendous effort put forth by the institutions to stay in compliance with regulations. He stated that the results of their hard work were evident in the results of the report. Ms. King added that Mr. Halling and Mr. Mike Lopez deserved recognition for the leadership they had demonstrated over the last couple of years. Mr. Asmussen also congratulated Mr. Halling and Mr. Lopez on their fine effort. He added that financial aid required a collaborative effort on the part of the finance division and the academic and student affairs division. Ms. King cautioned that these results would require constant vigilance going forward as well.

Chancellor McCormick congratulated everyone in the system who had worked hard over the years to work through and correct the problems of the past. He noted that it had been an enormous undertaking for the institutions.

Trustee Van Houten stated that the institutions had done an outstanding job. He further stated that it was a major achievement that demonstrated strong competence on the part of the campus and system staff. He added that the results of the audit should be related to the full board and to the institutions systemwide.

Chair Thiss thanked Mr. Wischmann for his presentation.

3. Office of the Legislative Auditor's Program Evaluation of Occupational Program (Information Item)

Mr. Asmussen stated that the Office of the Legislative Auditor had released its report on occupational programs. He introduced Mr. James Nobles, Legislative Auditor.

Chair Thiss welcomed the representatives from the Office of the Legislative Auditors. He noted that unlike financial audits done the Legislative Auditor, this report was an operational audit. He stated that the audit committee's responsibility was to review

the policy issues in the report and refer them to the appropriate committees. He added that the Office of Internal Auditing would follow-up on open audit items. He further reminded the committee that audit reports were an opportunity for continuous improvement.

Mr. Nobles introduced Ms. Jody Hauer, Program Manager and Ms. Valerie Bombach, Program Evaluator. He stated that the report on MnSCU's occupational programs had been conducted at the request of the Legislative Audit Commission, and that it had been released to them. He recognized the importance of MnSCU's occupational programs and noted that it was essential that Minnesota produce people who had the skills to do the daily jobs of a productive and modern economy. He further acknowledged that determining which occupational programs to offer and where to offer them was a challenging and difficult decision making process.

Ms. Hauer presented the report. She stated that generally the two-year colleges did a good job of assessing the economic conditions and student skill sets needed in the workplace. But, she added that the colleges did not consistently assess the availability of jobs for the types of occupations that were related to programs. Further, she stated that the colleges had a wealth of information to help students explore careers and look at job opportunities, but that there were gaps in the information on job prospects for students. Ms. Hauer then reviewed the seven recommendations.

Trustee Van Houten stated that the employment market in Minnesota was significantly different over the last twelve months than it had been historically. He asked what time horizon should be used by the Board of Trustees to predict that jobs would be needed. Ms. Hauer explained that the report did not require a particular timeline. She stated that it was important for colleges to become more consistent in their assessment of job prospects. Mr. Nobles added that overall the system was doing a good job tracking the changes in the economy from what jobs were available to the kind of training in occupational programs that were offered. He acknowledged the difficulty predicting the future and he stated that the system should consistently use the best economic data available, with the most objective analysis.

Trustee Van Houten also noted that using an intermediary like a union to determine the number of graduates placed in a trade field would only provide information on union jobs and would not identify graduates placed in nonunion jobs. He asked for an opinion on a fair role for a market intermediary like a trade association or a labor union. Ms. Hauer explained that the use of intermediaries in the report was limited to when the faculty spoke on behalf of graduates in responding to the graduate follow-up survey. She added that the report suggests that there should be testing done to ensure that those are accurate assessments of whether the jobs were related to the educational programs.

Trustee Dickson asked if the system office had adequate staff who specialized in the area of labor market analysis to assist the colleges. She stated that she thought it was a strength of the system to be able to centralize that support. Ms. Hauer stated that the level of staffing would be a system decision, but she added that the colleges

should be expected to analysis the regional labor market because they were required to conduct the programs reviews. She noted that the colleges had control over what would be included in the review and how often those reviews occurred. The report recommended there should be more consistency in the data that was reviewed.

Chair Thiss stated that there were a number of policy issues in the report that should be referred to other committees. Chair Olson suggested that the audit committee review the report and recommend board committees where each of the report's recommendations should be referred. Trustee McElroy stated that the academic and student affairs committee could review the advisory committees recommendation and the connection between program reviews and labor market analysis. Trustee Thiss agreed and stated that he and Vice Chair Van Houten would work with staff to provide a list to the board.

Chancellor McCormick expressed his appreciation for the professional and thorough research that was conducted. He stated that the system would review the recommendations as a continuous improvement plan. He stated that copies of the report had already been sent to the presidents, and there would be ongoing communications with them. He acknowledged that some of the presidents had strong relationships with the employers in their regions, but he stated that relationships with employers needed to be strengthened even further. He stated that the advisory committees needed to be improved. Finally, he stated that the system was committed to a full disclosure to students about job prospects to the best of the system's ability.

Trustee Benson thanked the Office of the Legislative Auditor for their work and he stated that he also viewed the recommendations as an opportunity for continuous improvement. Chair Thiss thanked the auditors for coming and presenting to the committee.

The meeting adjourned at 12:19 p.m.

Respectfully submitted,
Darla Senn, Recorder

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: May 20, 2009

Agenda Item: Review Preliminary Auxiliary Revenue Sources Report

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

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

As part of its 2009 audit plan, Internal Auditing is conducting a study of auxiliary revenue sources at the colleges and universities.

Scheduled Presenter(s):

John Asmussen, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- This preliminary report is intended to provide useful information to the Board of Trustees.

Background Information:

- In January 2009, the Audit Committee a system-wide internal auditing study of the auxiliary revenues collected at the colleges and universities.
- Internal Auditing plans to deliver the final report on the full project to the Audit Committee in September 2009.

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

BOARD INFORMATION
REVIEW PRELIMINARY AUXILIARY REVENUE SOURCES REPORT

In January 2009, the Audit Committees approved a system-wide Internal Auditing study of auxiliary revenues collected by the college and universities. This project was selected because of interest in learning more about auxiliary and supplemental revenue sources and to ensure that the most significant sources, e.g. bookstores and food services, maintained adequate internal controls and complied with existing board policies.

John Asmussen, Executive Director of the Office of Internal Auditing, will provide a preliminary report on the results from phase I of study to the Audit Committee at its May 20, 2009 meeting. Phase I focused on institutional practices for auxiliary revenue sources. It was designed to address the following questions:

- To what extent have colleges and universities generated auxiliary revenues? What are the most significant sources of these revenues?
- Have colleges and universities established sufficient institutional policies and practices regarding controls and compliance for auxiliary revenues?

Internal Auditing will present the final report on this study to the Audit Committee at its September 2009 meeting.

Date Presented to the Board of Trustee: May 20, 2009