

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: January 21, 2009

Agenda Item: Select Internal Audit Topic for Fiscal Year 2009

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

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

According to Board Policies 1A2, Part 5, Subpart E and 1D, the Audit Committee oversees the services of the Office of Internal Auditing.

Scheduled Presenter(s):

John Asmussen, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- Internal Auditing has some capacity to conduct system-wide studies. Audit Committee approval is sought in order to select a topic that would be most useful to the system.

Background Information:

- The fiscal year 2009 audit plan was approved by the Audit Committee in September 2008. It provided that the Office of Internal Auditing would recommend a project topic to the audit committee in January 2009.

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

BOARD INFORMATION
SELECT INTERNAL AUDIT TOPIC FOR FISCAL YEAR 2009

Each year, Internal Auditing schedules a study of a topic of major system-wide interest. The fiscal year 2009 audit plan, approved by the Board of Trustees in September 2008, provided that Internal Auditing would recommend a project topic to the audit committee in January 2009. The Internal Auditing capacity for conducting a system-wide study has been eroded somewhat due to a commitment to support audits of eight colleges by the Legislative Auditor; much of that work will occur in February 2009. Internal Auditing expects to have some time available in March – May 2009 to conduct a system-wide project.

The project recommended for this system-wide study pertains to auxiliary revenues. It is described in more detail in the attached project proposal. 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, maintain adequate internal controls and compliance with existing board policies.

Other potential topics that were considered for system-wide studies, included:

- Information Technology Services project management,
- Information Technology Services quality assurance methods,
- Spending on diversity programs,
- Use of credit cards for purchasing goods and services,
- Executive spending accounts, and
- Post secondary enrollment options program.

Using Internal Auditing to study these topics is not recommended at this time for various reasons. Some of the topics remain in formative stages, e.g., the information technology topics and diversity spending, and a system-wide audit would be somewhat premature until they have more established foundations. The credit card usage topic is currently subject to another review by the system's compliance officer. Executive spending is a very small dollar amount in the system. Internal Auditing has previously studied the Post Secondary enrollment options program.

RECOMMENDED COMMITTEE ACTION:

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.

Date Presented to the Board of Trustee: January 21, 2009

Minnesota State Colleges & Universities
Office of Internal Auditing
Proposal for a System-wide Audit Topic – Fiscal Year 2009

AUXILIARY REVENUE SOURCES

In these tough economic times, colleges and universities must be aggressive and innovative in maintaining balanced budgets. Two basic strategies are available to adjust underlying financial structures: expense management and revenue enhancement. Because severe constraints are expected for the three primary revenue categories -- state appropriations, student charges for tuition/fees, and federal/state/private grants -- much of the focus for solutions has been directed to managing expenses. There will be, however, opportunities to enhance revenues from secondary or auxiliary sources.

In fiscal year 2008, colleges and universities in the Minnesota State Colleges and Universities system generated \$1.8 billion of revenues. Based on the limited analysis shown in Table 1, about \$79 million, or less than 5%, of those resources were generated from supplemental revenue sources. Enterprise Funds include bookstores, campus stores, food services, and parking activities. Other income in the General and Special Revenue Funds may be attributed to ancillary revenues from extracurricular activities, like intercollegiate athletics and theatre, health services, and revenues generated as byproducts of educational programs, e.g., building houses in construction programs, providing dental hygiene services to the general public, repairing automobiles, etc.

Table 1: Supplemental Revenue Sources (2) – Fiscal Year 2008
(\$ in Thousands)

Revenue Source	FY 2007	FY 2008
Enterprise Funds – Operating Revenues	\$48,469	\$50,102
General Fund – Other Income	10,511	11,700
Special Revenue Funds – Other Income	1,868	1,229
Interest Income (1)	17,112	14,869
Gain on Disposal of Assets (1)	267	1,274
Subtotal – Supplemental Revenues	\$78,227	\$79,174

(1) Excludes Revenue Fund earnings

(2) The Table shows only supplemental revenue sources that are readily apparent from categories presented in the audited financial statements. Additional amounts may be blended into some of the primary revenue categories.

Source: MnSCU Supplements to the Annual Financial Reports FY 2007 and 2008

Due to the relatively small amounts, supplemental revenue sources do not receive much attention from external auditors. The Legislative Auditor has, however, cited some deficiencies in internal controls for supplemental revenues, particularly when cash collection operations are maintained outside of the business offices.

Some board policies and procedures also may have a bearing on supplemental revenue sources. Policy 7.6 on Business Activities delegates much of the authority and

responsibility for managing business activities to college and university presidents, but creates some boundaries on competition with the private sector. Procedure 7.3.2 establishes several provisions related to auxiliary operations, including criteria for identifying allowable activities and expectations for maintaining appropriate levels of retained earnings. Policy 3.26 on Intellectual Property establishes conditions under which institutions may share in revenues generated by research activities. Procedure 5.14.1 governs the selling and leasing of computers. Other board policies and procedures may affect certain other revenue sources.

Objectives

This project will focus on institutional practices for managing supplemental revenue sources. In large part, it will provide descriptive information about current supplemental revenue sources established throughout the system. It also will provide particular focus on some of the most significant auxiliary revenue sources, such as bookstores and food services and test them for adequate internal controls and policy compliance.

Phase I: Institutional practices for auxiliary revenue sources. The project will address on 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?

Phase II: Major auxiliary revenue sources, such as bookstores and food services. The project will address the following questions:

- What are the primary strategic and operational features of these activities, such as owning vs. contracting the services, pricing practices, operating margins, levels of retained earnings, extent of institutional support, indirect cost recoveries, etc., for these activities?
- Have colleges and universities established sufficient internal controls to protect their assets and ensure compliance with major legal and policy provisions?

Methodology

To address these questions, Internal Auditing will perform the following procedures:

- Compile data and inventory auxiliary revenue sources generated by each college and university;

MnSCU Office of Internal Auditing
FY 2009 System-wide Audit Topic

- Identify major auxiliary revenue sources, beyond bookstores and food services, for each college and university;
- Conduct a literature review to identify potential sources of revenue being generated by public colleges and universities;
- Gain an understanding of institutional practices regarding controls and compliance matters for auxiliary revenue sources;
- Test internal controls and compliance for major auxiliary revenue sources, including bookstores and food services;
- Develop recommendations for the Office of the Chancellor and college and university presidents, as warranted, and
- Identify policy issues for consideration by the Board of Trustees.

Timeline and schedule

Fieldwork for this project will be conducted from March through May 2009. A preliminary report may be issued in May 2009 focused primarily on the objectives for Phase I. A final report, addressing all objectives will be presented to the Board of Trustees Audit Committee in September 2009.