

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE
MEETING MINUTES
May 20, 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.*

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

The Minnesota State Colleges and Universities audit committee held its meeting on May 20, 2009, at Wells Fargo Place, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair Thiss called the meeting to order at 8:32 a.m.

Approval of the Audit Committee Meeting Minutes

Chair Thiss called for a motion to approve the March 17, 2009 Audit Committee Meeting minutes. The Chair moved to approve the minutes, there was no dissent and the motion carried.

1. Review Preliminary Auxiliary Revenue Sources Report (Information Item)

Mr. John Asmussen, Executive Director of the Office of Internal Auditing, reminded the committee that this phase of the project and design was exploratory to learn more about the supplemental and auxiliary revenues. He thanked the audit coordinators for their work on the project and Ms. Melissa Primus, who was the lead audit coordinator for the auxiliary revenue sources report. He also thanked Mr. Douglas Allen, Ridgewater College President, and Mr. Bob Haines, Ridgewater Chief Financial Officer, for their willingness to serve as the pilot for the project.

Mr. Asmussen introduced Ms. Beth Buse, Deputy Director of Internal Auditing. Ms. Beth Buse explained that phase one of the project identified the types of auxiliary and supplemental revenue sources at the colleges and universities and which were the most significant. She added that they had also identified limited policies and procedures in place at the institutions relating to the auxiliary revenues. She went on to explain the methodology that was used to collect the data for phase one.

Ms. Buse stated that in 2008, auxiliary and supplemental revenues accounted for \$167 million, which was summarized into four separate categories. The largest category was enterprise activities at \$110 million, then supplemental academic program revenue at \$26 million, leveraged asset capacity at \$19 million and finally event revenue at \$11 million. She added that the analysis was discussed and reviewed with each institution. Ms. Buse stated that overall, phase one found that the supplemental

revenue operations were limited and that the institutions noted that their main focus has always been on their academic missions.

Ms. Buse noted that the largest supplemental revenue operation were the bookstore operations. She stated that the system operated forty-seven bookstore operations and that there was seven outsourced bookstores, five of which were on state university campuses. The system runs eleven food services operations, outsources forty-two operations, and one college campus does not have a food service facility for its students. The system operates seven child care centers and outsources sixteen centers. Nine colleges have some type of non-revenue fund student housing. Eight institutions have laptop rental programs, but Ms. Buse noted that 75% of the financial activity was from Winona State University. Mr. Asmussen added that the other institutions had very limited laptop rental programs, some were limited to a particular program. Trustee Englund asked why the laptop program at Winona State University was so successful and if that success could be duplicated at other campuses. Mr. Asmussen stated that the associated offset costs were not included in the analysis and added that the program was being managed as a break even proposition, not a profit center.

Ms. Buse stated that sixteen institutions had a health service fee and offered some sort of health service operation on site, and two institutions outsourced within the community. She stated that four state universities had full-service clinics on site and that two of the others had more limited type arrangements. She also noted that one college has a limited clinic available on site.

Ms. Bused stated that in the supplemental academic program category, resale operations that come out of academic programs represented \$8 million. She noted significant examples such as culinary arts, cosmetology, automotive repair, and carpentry programs. She added that the largest dollars in this area were in the carpentry programs, but that the amounts fluctuated with the sale of houses. Mr. Asmussen stated that the academic program review were often under the control of the academic deans, outside the purview of the business offices, and he added that they were one of the areas recommended for additional review in phase two of the project.

Ms. Buse reviewed the extent that institutions had formal policies and procedures in place relating to the auxiliary revenues. She noted that the competition policy could be a hindrance for the institutions to develop additional auxiliary and supplemental revenues and it may be a policy area that the board would want to take a look in the future. Chair Thiss asked if only the seven institutions with formal policies relating to their budget were in compliance with board policy. Ms. Buse explained that the other institutions had practices in place, but no formal policies.

Trustee Dan McElroy asked if there were local bank accounts associated with the miscellaneous revenues. Mr. Asmussen stated that the system had consolidating many bank accounts, and that very few of the individual revenues would have their own accounts. Trustee McElroy asked if would be possible to verify those accounts as part of phase two.

Trustee McElroy asked if there had been a Minnesota Department of Revenue Sales and Use Tax audit. Ms. Laura King, Chief Financial Officer, stated that the institutions had substantially improved their sales tax compliance over the last five or six years. She added that the system had not been audited by the Department of Revenue in that time, but that the institutions were compliant.

Trustee Van Houten noted that individual supplemental auxiliary revenues, or all supplemental auxiliary revenues at an individual institution may not be material, but cumulatively they would become material. He added that it may be advantageous for certain activities to be considered systemwide or with more systemwide involvement. As an example, he noted that vending or food service contracts may be an area where contracts could be negotiated for the system or policy guidance could be provided. Ms. King reminded the members that in the past, auxiliary operations had not been invested in because they were not core to institution missions. She added that as part of the system's overall commitment to access and affordability, the supplemental auxiliary operations had not been priced for profit.

Mr. Asmussen stated that the recommendation for phase two would include a study of the bookstore operations to compare and contrast bookstores run by the system and bookstores that were outsourced. A second piece of phase two would include the control issues in regards to the health services operations. Finally, phase two would review the academic program resale. He added that there may be important policy issues for consideration in terms of the extent the board would encourage or control more activity in the area of supplemental auxiliary revenue operations.

The meeting adjourned at 9:04 a.m.

Respectfully submitted,
Darla Senn, Recorder