Committee Chair Thiss calls the meeting to order.

1) Minutes of May 20, 2009 (pages 1-3)
2) Approval of FY 2010 Internal Auditing Annual Audit Plan (pages 4-9)
3) FY 2010 Audit Committee Work Plan (pages 10-11)

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.

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

Board Policy 1D.1, part 6, requires the Executive Director of Internal Auditing to present an audit plan for each fiscal year.

Presenter at the Audit Committee meeting:

John Asmussen, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- As a result of budget reductions, consulting services are being eliminated and analytic services are being constrained.

- Internal Auditing services will concentrate primarily on delivering assurance and investigative support services. Priorities for these services are noted in the plan.

- Internal Auditing will monitor the results of various external audits and reviews of particular programs or affiliated organizations and recommend corrective actions when warranted.

- Further planning is needed for the timing and extent of future information technology audits.
BOARD OF TRUSTEES  
MINNESOTA STATE COLLEGES AND UNIVERSITIES

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BACKGROUND

According to Board Policy 1.D., Part 6, the Office Internal Auditing must submit an annual audit plan to the audit committee. The fiscal year 2010 audit plan is attached.

COMMITTEE ACTION:

On July 21, 2009, the audit committee reviewed the draft Fiscal Year 2010 Internal Auditing Plan and approved the following motion:

RECOMMENDED MOTION:

The Board of Trustees approves the Office of Internal Auditing annual audit plan for fiscal year 2010.

Date Presented to the Board of Trustees: July 21, 2009
According to Board Policy 1D.1, Part 6, the Office of Internal Auditing must submit an annual audit plan to the audit committee. Professional internal auditing standards require that the audit plan be based on a risk assessment to ensure that audit resources are focused on the most critical projects.

The Office of Internal Auditing abides by the budget process for the Office of the Chancellor. Because of the dire economic conditions facing state government and the resulting reduction in state appropriations to the Minnesota State Colleges and Universities, the Office of Internal Auditing must absorb a 15% budget reduction from its fiscal year 2009 base budget. To achieve such a drastic reduction, the office offer only core assurance services in fiscal year 2010. The office will no longer have the capacity to provide consulting services at the request of the Chancellor or presidents. Also, IT analysis services will be shared with the Information Technology Services. Although the office will continue to monitor progress toward resolving audit findings, it will have very limited capacity to assist with the design of corrective actions. Its capacity to provide services to the Chancellor and the presidents, upon request, will be constrained.

Priority Audit Areas

For internal auditing purposes, a risk assessment is intended to support the selection of the highest priority projects using audit resources, specifically assurance services. It begins with identification of an audit universe which represents the population of potential audit areas, and leads to a selection of audit priorities for the year. For fiscal year 2010, the Office of Internal Auditing has identified the following priorities, with the estimated percentage of Internal Auditing staff resources noted for each area:

I. Comprehensive Assurance Services for Basic Financial Risks (25%).Audit coverage for two areas must be approached strategically to ensure that reasonable controls are established as a foundation for programs and operations. The Office of Internal Auditing is obligated by current contracts to provide the following support for financial audits:

- Financial Statement & Financial Aid Audits – In January 2009, the Board of Trustees approved an amendment to the strategic plan for external audit services, which originally had been approved in January 2005. This plan establishes the extent and frequency for auditing financial activities system-wide and at individual colleges and universities. In January 2009, the Audit Committee tentatively decided to add an additional college, Normandale Community College, to the annual audit cycle for fiscal year 2010. Also, the audit contract for the system’s principal auditor expires during fiscal year 2010 and will have to be rebid. The current CPA firm serving as the principal auditor will have completed six years of continuous service and, as stipulated by board policy, will not be eligible to be reappointed for the next contract period.
• Other Fiscal Audits - The financial statements provide the basis for determining the significance or materiality of financial activities. Because the effectiveness of internal controls is subject to change and possible deterioration, it is essential that basic assessments of these controls be scheduled on a recurring basis. The significant financial activities of 20 colleges and the Office of the Chancellor are not subject to extensive audit coverage as part of the annual financial statement audits. To address this void in audit coverage, the system has contracted with the Office of the Legislative Auditor to audit these entities once every three years. That three-year cycle is subject to change if circumstances warrant a more accelerated schedule at a particular institution. Because of constraints on the Legislative Auditor’s staff resources, beginning in fiscal year 2009, the Office of Internal Auditing began investing in staff resources to assist the Legislative Auditor, and maintain the current audit schedule. The final arrangements with the Legislative Auditor for financial audits during fiscal year 2010 must still be negotiated, but it is anticipated that it will require ongoing support from the Office of Internal Auditing.

II. Monitor Progress toward Implementing Audit Findings (20%). It is important that the Board of Trustees, Chancellor, and presidents have confidence that any problems revealed by audits or evaluations receive appropriate attention. Internal Auditing monitors progress toward implementing findings identified in financial audits identified in the previous section. It also monitors the results of a myriad of other audits and reviews identified later in this audit plan. Internal Auditing provides status reports on prior audit findings to the presidents and vice chancellors in January and June of each year. The Chancellor is informed about any unresolved audit findings as part of the annual presidential/Cabinet performance evaluation process. Finally, in its annual report to the Board of Trustees, Internal Auditing reports on progress toward resolving prior findings.

III. Reinforce and Assist with the Implementation of Board Policy 1C.2, Fraudulent or Other Dishonest Acts (20%). Since the board approved Policy 1.C.2 in June 2002, Internal Auditing has worked with the Chancellor’s Cabinet and presidential executive teams to implement its provisions. On July 1, 2008, a new Code of Conduct for employees was enacted as Procedure 1.C.0. Internal Auditing will continue to work with the Office of General Council on implementation of this new procedure. In these times of great uncertainty and change, it is reasonable to expect an increase in the number of issues that will require inquiries and possibly investigations. Accordingly, the amount of time reserved for this activity has been increased in this plan.

IV. Conduct Studies that have Significant System-wide Interest (20%). Each year, Internal Auditing schedules a study of a topic of major system-wide interest. Recent studies have focused on affiliated foundations and implementation of student success systems. A study currently underway focuses on auxiliary revenue sources, with a final report expected to the Audit Committee in October 2009. It is anticipated that the Audit Committee will select the next system-wide study topic in January 2010.

V. Test Board and Chancellor Expenses for Legal Compliance (2%). Internal Auditing conducts periodic reviews of expenses incurred by the Board of Trustees, and submits an annual audit report to the Executive Committee of the board through the Board Treasurer.
It also examines the Chancellor’s expense reimbursements and special expenses on an ongoing basis to ensure compliance with fiscal policies.

VI. **Ad-hoc Services to address immediate concerns or interests (13%)**. Planning cannot anticipate all future needs or interests. Accordingly, some audit resources must be reserved to direct Internal Auditing services to important issues that arise throughout the year. These services may take the form of participation on task forces, providing professional advice, or scheduling special projects when warranted.

- **Management Priorities** – The Office of Internal Auditing serves the Board of Trustees, Chancellor, and presidents. Accordingly, this plan allows for the Chancellor and presidents to request Internal Auditing services that address particular risks that they wish to be examined. To the extent that Internal Auditing has available resources after serving the interests of the Board of Trustees, it will undertake projects requested by the Chancellor and presidents.

- **Emergent Issues** – Internal auditing is constantly scanning the environment to be alert for risks that may require audit resources. Unforeseen programmatic or compliance matters may emerge and merit attention. As a result, some residual time must be reserved in this audit plan to allow for the use of Internal Auditing resources when important issues arise.

### Monitoring Other External Audits, Evaluations, and Reviews

In addition to the audit activities discussed in the previous sections, a variety of other external audits, evaluations, and reviews occur. Accordingly, Internal Auditing will monitor the results from the following activities and recommend corrective actions to the Chancellor, presidents, or the Board of Trustees, as warranted.

- **Legislative Auditor Program Evaluations** – In addition to its financial audit coverage, the Legislative Auditor may conduct periodic program evaluations, as selected by the Legislative Audit Commission. In March 2009, the auditor released an evaluation study on “MnSCU Occupational Programs”. The Audit Committee reviewed that report and the Executive Committee of the Board of Trustees assigned responsibilities to the Academic & Student Affairs and Advancement Committees for overseeing certain corrective actions. In April 2009, the Legislative Audit Commission approved a study of the Office of the Chancellor expenses and services. The Board Chair and Chancellor had requested that study. Internal Auditing is facilitating the efforts to cooperate with this study. A final evaluation report is expected in January 2010.

- **Audits of Grants and Special Financing Arrangements** – Some special grant or other funding sources have certain audit requirements that must be satisfied. State law requires that the Legislative Auditor review any audit contracts prior to their execution. The most common source of these requirements is the Minnesota Job Skills Partnership (MJSP) grants. Because of the volume and routine nature of the MJSP grants, the Legislative Auditor has agreed to permit Internal Auditing to review those audit contracts on its behalf. Other unique audit requirements, such as an audit arranged by Itasca Community College for a housing project financed with bonds sold by a County Housing and Redevelopment Agency, must be submitted directly to the Legislative Auditor for review.
• **Reviews Conducted by State and Federal Student Financial Aid Authorities** – The Minnesota Office of Higher Education conducts periodic reviews of the state grant and loan programs being administered by the colleges and universities. Most colleges and universities are examined once every three years as part of that process. Internal Auditing reviews these reports to determine whether findings indicate more systemic issues needing attention. Also, the U.S. Department of Education conducts ad-hoc program reviews and investigations of federal financial aid programs. The department schedules its reviews based on a risk assessment process and does not schedule routine reviews of each college and university.

• **Audits of Affiliated and Associated Organizations** – Board Policy 8.3 requires periodic financial audits of affiliated foundations. Also, other related organizations, such as the statewide student associations submit annual audited financial statements to the Office of the Chancellor. Internal Auditing will review these audit reports and determine the need to recommend any action by the Chancellor, Presidents, or Board of Trustees.

**Audit Areas Needing Further Consideration – Information Technology**

Information technology (IT) controls are subject to basic audit coverage as part of the annual audit of the system-wide financial statements. In prior years, the Legislative Auditor had been able to supplement that coverage and conduct periodic audits of higher risk IT operational areas. Staffing turnover, though, has limited the IT audit capacity of the Legislative Auditor and it has not examined MnSCU IT controls since 2006. Since that time, MnSCU IT operations have undergone significant structural changes and taken on increased organizational importance.

The extent and timing of further audit coverage for information technology areas has not been determined. The Office of Internal Auditing will continue to work with the system’s principal auditor, the Legislative Auditor, and the MnSCU Information Technology Division to develop a plan for achieving sufficient audit coverage of IT risks.
Committee: Audit Committee  Date of Meeting: July 21, 2009

Agenda Item: FY 2010 Audit Committee Work Plan

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

☐ Information

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

The Board Chair has requested each committee to submit a proposed meeting schedule for the 2009-2010 calendar.

Scheduled Presenter(s):

John Asmussen, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- This proposed meeting schedule coincides with the annual internal auditing plan.
- Additional special meetings will be scheduled if warranted by emerging issues.
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BOARD INFORMATION

FY 2010 AUDIT COMMITTEE WORK PLAN

TENTATIVE FY 2010 AUDIT COMMITTEE SCHEDULE

July 2009
- Approval of FY 2010 Internal Auditing Annual Audit Plan

September 2009
- Review Legislative Auditor financial audit results

October 2009 (special meeting)
- Discussion of the Roles and Responsibilities of the audit committee
  (Board Policy 1A.2, Part 5, Subpart E)
- Review Internal Audit of Supplemental and Auxiliary Revenues

November 2009
- Review and Approve Release of Audited Financial Statements

January 2010
- Review Internal Auditing Annual Report, including status of prior audit findings
- Select system-wide Internal Auditing project
- Review Legislative Auditor Program Evaluation of the Office of the Chancellor

March 2010
- Select Principal External Auditor for System Financial Statement Audits
- Review Results of Annual Student Financial Aid Audit

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