

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

**Agenda Item Summary Sheet**

**Committee:** Audit Committee

**Date of Meeting:** November 18, 2009

**Agenda Item:** Audit Update

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

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

The committee chair will report to the board the action plans to refer findings to other committees.

**Scheduled Presenter(s):**

Scott Thiss, Audit Committee Chair  
John Asmussen, Executive Director, Office of Internal Auditing

**Outline of Key Points/Policy Issues:**

- The Legislative Financial Audit Report on Eight Colleges Action Plan – October 13, 2009 was sent to Trustee Thomas Renier, Finance, Facilities and Technology Committee Chair and to Trustee Ruth Grendahl, Human Resources Committee Chair on October 20, 2009.
- The Internal Auditing Report – Auxiliary and Supplemental Revenues Action Plan – October 13, 2009 was sent to Trustee Thomas Renier, Finance, Facilities and Technology Committee Chair and to Trustee Dan McElroy, Academic and Student Affairs Committee Chair on October 20, 2009.

**Background Information:**

- The Legislative Auditor conducted audits of eight colleges that are not subject to annual financial statement audits. The audit committee asked the Office of the Chancellor to recommend actions and policy referrals for this report.
- As part of its 2009 audit plan, Internal Auditing conducted a study of auxiliary revenue sources at the colleges and universities, which it presented to the audit committee on October 13, 2009.

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

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| <b>INFORMATION ITEM</b> |
| <b>AUDIT UPDATE</b>     |

**BACKGROUND**

The audit committee has reviewed the financial audit report issued by the Office of the Legislative Auditor on September 9, 2009 and has referred certain findings to the Finance, Facilities and Technology Committee and to the Human Resources Committee for further review and discussion. The attached action plan outlines the findings.

The audit committee also has reviewed an internal audit report issued by the Office of Internal Auditing on October 13, 2009 and has referred certain findings to the Finance, Facilities and Technology Committee and to the Academic and Student Affairs Committee for further review and discussion. The attached action plan outlines the findings.

*Date Presented to the Board of Trustee: November 18, 2009*

**BOARD OF TRUSTEES – AUDIT COMMITTEE  
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

Legislative Financial Audit Report on Eight Colleges  
Action Plan – October 13, 2009

**BACKGROUND**

At the September 8, 2009, audit committee meeting, the Office of the Legislative Auditor released its financial audit of eight colleges (Report No. 09-30). Section A of the report cited seven findings that the auditor described as “significant internal control weaknesses and compliance concerns related to specific colleges and system weaknesses noted at a majority of the colleges we audited.” Section B of the report cited an additional 13 findings that had more isolated effects and could be “effectively resolved by college management.” The audit committee concentrated on the seven findings cited in Section A of the report and asked the Office of the Chancellor to recommend actions and policy referrals so that corrective actions, as necessary, would be taken by all colleges and universities in the system so that these findings would not reappear in future audits as systemic problems.

At its October 13, 2009 meeting, the audit committee reviewed the actions and referrals recommended by the Office of the Chancellor. The committee concurred with the recommendations, but added another referral to the Human Resources Committee (see item related to Finding #7 on the next page).

**General Actions Planned by the Office of the Chancellor**

The Office of the Chancellor will distribute copies of the final report to all presidents, Chief Finance Officers, and Chief Human Resources Officer. The reports will be accompanied by instructions to review the findings in Section A of the report and to conduct a self-assessment of their institution’s processes for each area.

The Chancellor will impress upon presidents at the November 2009 Leadership Council meeting that it is essential for them to learn from the audit findings cited at other institutions.

The Vice Chancellors for Finance and Human Resources will review the Section A findings with campus representatives at system-wide meetings held during the next year.

As part of its mid-year (January) and year-end (June) monitoring of prior audit findings, the Office of Internal Auditing will review the self-assessments conducted by each institution for the Section A findings, progress being made by the audited institutions on Section B findings, and report on areas that need improvement.

## **Referrals to other Board Committees**

Three findings will be referred to the Finance Committee for further review and discussion:

- Finding #1 cited poor controls over granting security clearances to the business applications run on the Integrated Statewide Records System (ISRS). Board Policy 5.23 governs the Security and Privacy of Information Resources.
- Finding #3 cited deficiencies in recording equipment. Board Policy 7.3 and System Procedure 7.3.6 govern the accounting for capital assets, including equipment.
- Finding #4 cited weaknesses with managing employee use of college-issued credit cards. Board Policy 7.3 and System procedure 7.3.3 govern the use of credit cards.

Three findings will be referred to the Human Resources Committee for further review and discussion:

- Finding #2 cited widespread problems with accounting for administrator and faculty leave. Labor agreements govern the eligibility for leave accruals; no board policies or system procedures address accounting for employee leave.
- Findings #6 and #7 raised questions about early separation incentives paid to former faculty members. Board Policy 4.6 establishes limitations on the re-employment of employees who have received such payments. Recently Policy 4.11 was approved to offer a new program for early separation incentives, as authorized by the 2009 Legislature. The findings cited by the Legislative Auditor pertained to incentive programs authorized by the MSCF bargaining agreement.
- Finding #7 also mentioned the role of “past practice” related to applying labor contract provisions. The Audit Committee members referred to the Human Resources Committee concerns about how “past practices” and negotiated letters of understanding affect interpretation and implementation of the contracts (*Item added by the Audit Committee at its October 13, 2009 meeting.*)

*Reviewed and Amended by the Audit Committee: October 13, 2009*

**BOARD OF TRUSTEES – AUDIT COMMITTEE  
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

Internal Auditing Report – Auxiliary and Supplemental Revenues  
Action Plan – October 13, 2009

**BACKGROUND**

At the October 13, 2009, audit committee meeting, the Office of Internal Auditing released its report on auxiliary and supplemental revenues (Report No. 2010-09-001). The report scope included bookstore operations, student health services operations, and academic program resale activities. Internal Auditing offered a range of observations and recommendations for these three areas. The Audit Committee asked the Executive Director of Internal Auditing to ensure that college and university presidents received copies of the final report and initiated any corrective actions for any relevant audit findings. The committee also identified particular issues that warranted oversight from the Chancellor or represented potential policy issues for consideration by the Leadership Council and board policy committees.

**Corrective Actions Directed to the Chancellor**

The Audit Committee directed the following corrective actions to be undertaken with the oversight of the Chancellor.

Bookstore Operations

- The colleges and universities shall prepare accurate, full accrual financial statements for their bookstore operations. The financial statements should account for all direct and indirect costs associated with the bookstores.
- The colleges and universities shall prepare financial plans for how accumulated bookstore profits will be used.
- The Office of the Chancellor must develop standard procedures and guidelines for the preparation of income contracts, like the long-term contracts governing outsourced bookstore operations. It must ensure that these contracts undergo the appropriate review and approval processes.
- As part of the Students First initiative, the Office of the Chancellor will lead efforts to create a more efficient and effective interface between the financial aid system and bookstore operations. This interface should facilitate students applying financial aid funds toward the purchase of textbooks.

## **Corrective Actions Directed to the Chancellor (cont.)**

### **Student Health Services Operations**

- Metropolitan State University must comply with the statutory obligation to offer health services to its students. The Office of General Counsel is reviewing whether the current situation complies with the statutory requirement.
- As required by statute, the health service financial activity must be reported to the Board of Trustees.
- College and university must purchase healthcare facilities medical professional liability insurance if they operate a health service clinic.

### **Potential Policy Issues**

The following issues should be considered by the Leadership Council and Finance, Facilities & Technology Committee of the Board of Trustees for further review and discussion:

- Board policies and system procedures regarding the standards for financial reporting, including charging indirect costs, for auxiliary enterprises and the acceptable level of their unrestricted net assets need consideration. The adequacy of these policies should be considered for both bookstore operations and health services.
- The optional arrangements for bookstore operation, e.g. college-operated, outsourced, collaborative solutions such as multi-campus cooperatives, need further analysis and consideration.

The following issues should be considered by the Leadership Council and the Academic and Student Affairs Committee of the Board of Trustees for further review and discussion:

- The definition and scope of health services, including level and type of services and protocols for referring students to other health care providers, should be explored.
- Options for offering or mandating student health insurance coverage either generally or for particular subgroups, such as nursing students or athletes, needs further consideration. A pilot program in place at Minnesota State University Moorhead may offer some insights for extending mandatory insurance programs to other colleges or universities.

*Date Discussed with the Audit Committee: October 13, 2009*