

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

<b>BOARD ACTION</b>
<b>APPROVAL OF CONTRACT WITH LEGISLATIVE AUDITOR          FOR FINANCIAL AUDITS</b>

**BACKGROUND**

In January 2005, the Board of Trustees approved the Strategic Plan for External Audit Services (a copy of the plan is available on the Internal Auditing website at <http://www.internalauditing.mnscu.edu/committee/2005/january/plan-to-contract-cpa-firms-2005.pdf> ). The plan provided for a combination of contracting with CPA firms to conduct annual financial statements of the larger colleges and universities and contracting with the Legislative Auditor to audit the smaller colleges on a three-year cycle.

The plan provided that the annual audit of the system-level financial statements would be augmented with stand-alone audits of twelve colleges and universities. In January 2009, an additional college, Normandale Community College, was added as a stand-alone audit. This group of stand-alone audits was intended to account for approximately 60% of system-wide financial activity and, thus, improve the cost-effectiveness of the system-level audit.

The strategic plan for external auditing services also provided for contracting with the Office of the Legislative Auditor to obtain additional internal control assurances. The System has contracted with the Office of the Legislative Auditor for audit services since 1996. To complement the audit coverage achieved with the CPA firms, the focus of the Legislative Audit coverage has been on the colleges not subject to annual financial statement audits. As a result, the Office of the Legislative Auditor has examined these colleges and the Office of the Chancellor on a three-year schedule. Table 1 shows the six colleges that are due for audits in fiscal year 2010.

**Table 1: Colleges Due for Audits  
 In Fiscal Year 2010**

College	% System Assets	% System Operating Expenses
Central Lakes College	1.83%	1.86%
Inver Hills Community College	2.11%	1.96%
Pine Technical College	0.34%	0.62%
Ridgewater College	1.52%	2.27%
Riverland College	1.01%	1.61%
St. Cloud Technical College	2.25%	1.88%

Note: Percentages are based on MnSCU Supplement to the Annual Financial Report - Fiscal year 2009

Historically, the System has contracted with the Office of the Legislative Auditor under a shared cost arrangement, with the System reimbursing the office for approximately 50% of its audit costs. The Office of the Legislative Auditor has indicated, however, that due to demands on its scarce resources, it is no longer able to contribute as many auditor hours as in the past. Furthermore, the Office of the Legislative Auditor has expressed a desire to redirect some of its audit coverage from the smaller colleges to the larger colleges and universities in the System. The Audit Committee and the Chancellor also have expressed an interest in understanding whether the larger colleges and universities have learned from the results of the prior legislative audits of the smaller colleges. An abrupt shift of audit resources from the smaller colleges to the larger colleges and universities, though, would leave a void in accountability for the smaller colleges.

Accordingly, as a stopgap measure for fiscal year 2010, the following terms are proposed for a contract between the System and the Office of the Legislative Auditor:

- In lieu of the previous shared cost arrangement, the System will contract with the Office of the Legislative Auditor for a fixed price contract to audit at least five colleges (the colleges shown in Table 1, with the possible exception of St. Cloud Technical College) in fiscal year 2010. The System will pay the Office of the Legislative Auditor for its staff time (based on a standard hourly rate) and travel required to conduct these audits, subject to the maximum contract price.
- The scope of these audits will concentrate on the significant transaction cycles that have shown the greatest risk of control deficiencies in recent audits. These specific transaction cycles include computer access and security, employee payroll and leave, bank reconciliations and collateral balances, tuition waivers, and four targeted areas of administrative expenditures, i.e., purchased services, equipment, employee business expenses, and credit card purchases. Notably, tuition collections and accounts receivable will be excluded from the audit scope because recent audits have shown those areas to be well controlled.
- The Office of Internal Auditing will support the Office of the Legislative Auditor by entering into a service level agreement to examine some of these transaction cycles. The work of the internal auditors will be conducted as directed by the Legislative Auditor and will be subject to review and acceptance by the Legislative Auditor.
- If the Office of the Legislative Auditor encounters unanticipated problems in conducting the fieldwork and identifies risks that warrant expanding the audit scope, it shall notify the Executive Director of Internal Auditing promptly. Upon such notice, the System agrees either to provide supplemental internal auditing resources or amend its contract with the Office of the Legislative Auditor to address the risks.
- If the Office of the Legislative Auditor realizes unexpected savings in staff time (may be attributable to, but not limited to, the internal control documentation developed by the colleges) and has sufficient resources remaining, it may extend its audit coverage to St. Cloud Technical College. In the event that the Office of the Legislative Auditor is unable to audit this college, the Office of Internal Auditing will plan to perform equivalent audit procedures at the college.

This proposed contract does not address other audit efforts that the Office of the Legislative Auditor may initiate in furtherance of its statutory authority. Indeed, the office may choose to use its resources to apply audit procedures to other colleges, universities, or System activities. The System recognizes the authority of the Legislative Auditor to make such an independence judgment and will facilitate full cooperation to allow the auditor to conduct any additional audit procedures.

Both the System and the Office of the Legislative Auditor acknowledge that the fiscal year 2010 contract represents a possible transition in how the System will be audited in the future. Each party intends to examine alternatives for achieving their audit objectives in fiscal year 2011 and beyond.

**RECOMMENDED COMMITTEE ACTION:**

*The Audit Committee has reviewed this proposal for audit coverage of the six colleges during fiscal year 2010. 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 Executive Director of Internal Auditing and Vice Chancellor for Finance making arrangements with the Office of the Legislative Auditor to conduct financial audits of Central Lakes College, Inver Hills Community College, Pine Technical College, Ridgewater College, Riverland College, and, if resources permit, St. Cloud Technical College during fiscal year 2010. To the extent that the Office of the Legislative Auditor will not have sufficient time to audit St. Cloud Technical College, the Office of Internal Auditing shall perform equivalent audit procedures on the college.*

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