

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: November 18, 2009

Agenda Item: Approval of Contract with Legislative Auditor for Financial Audits

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

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

Board Policy 1A2, Part 5, Subpart E charges the Audit Committee with “oversight of internal and external audits of all system functions including individual campus audits.”

Scheduled Presenter(s):

John Asmussen, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- Based on a three-year audit cycle, six colleges are due for financial audits to examine their internal controls and fiscal compliance.
- The Legislative Auditor has indicated that due to demands on its scarce resources, it is no longer able to contribute as many auditor hours as in the past.
- The System is negotiating with the Legislative Auditor on the number of audits, audit scopes, and the extent that internal auditing resources will be used as a supplement to achieve this audit coverage.
- The negotiations are expected to be completed prior to the Audit Committee meeting so that an updated board report may be presented for committee action.

Background Information:

- In January 2005, the Board of Trustees approved an external audit plan that provides the framework for its financial audit coverage. The plan was amended in January 2009.
- For several years, the System has contracted with the Office of the Legislative Auditor to provide audits of the colleges not subject to annual financial statement audits (generally the smaller colleges).

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

BOARD ACTION
APPROVAL OF CONTRACT WITH LEGISLATIVE AUDITOR FOR FINANCIAL AUDITS

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 the 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 Legislative Auditor to obtain additional internal control assurances. The System has contracted with 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, these colleges and the Office of the Chancellor have been on a three-year schedule for audits conducted by the Legislative Auditor. 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

The contract with the Legislative Auditor has been a shared cost arrangement, with MnSCU reimbursing the auditor for approximately 50% of its audit costs. 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. Accordingly, the System is in the process of negotiating audit coverage with the Legislative Auditor. The number of audits, audit scopes, and the extent that internal auditing resources will be used as a supplement are all under consideration. The negotiations are expected to be completed prior to the Audit Committee meeting so that an updated board report may be presented for committee action.

RECOMMENDED COMMITTEE ACTION:

The Audit Committee has reviewed the external audit plan and selected the colleges subject to financial audits conducted by the Legislative Auditor 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 Legislative Auditor to conduct financial audits of <details to be cited in updated board report>.

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