MINNESOTA STATE COLLEGES AND UNIVERSITIES BOARD OF TRUSTEES AUDIT COMMITTEE MEETING MINUTES November 18, 2009

Audit Committee Members PresenTrustees Scott Thiss, Chair; Jacob Englund, Dan McElroy, David Paskach, and James Van Houten.

Audit CommitteeMembers Absent: none

Other Board Members Present: Trustees Cheryl Dick christopher Frederickand Tom Renier

Leadership Council Committee Members Present: Chancellor McCormick, John Asmussen, President Pat Johns,

udit committee held its meeting on

th Floor, Board Room, 30 Easth Street in St.

Paul. Chair Thiss called the meeting to order @38 &c.m.

Approval of the Audit Committee Meeting Minutes Chair Thiss called for a motion to approve the October 2009, audit committee meeting minutes. There was no dissent and the motion carried. such assecurity and access controls, equipment inventories, and credit Mards
Asmussen added that he had committed to augmenting the legislative auditor coverage with internal audit resources to ensure that all elleges were reviewed.

Mr. Asmussen reminded members that the Office of the stative Auditor had autonomous statutory authority to select auditchad expressed ainterest in auditing some of the larger institutions, particularly the state universities. He stated that the legislative auditor had reserved the prerogative to go to one or more of the state universities this year

Trustee Thiss asked if the legislative auditor would use a targeted approach to avoid a duplicative process to the work of the external auditors. Mr. Asmussen assured members that the legislative auditor would start by looking at the external auditor's working papers and build from there.

Trustee Van Houten stated that CFI ratings ought to be taken into considerable in t selection of colleges for the legislative auditor to review. He added that colleges with the weakest CFI ratings ought to get some sort of an annual review, until they worked their way up.

Ms. Laura King, Chief Financial Officestated that there wild be occasion to discuss how colleges were selected for audit when the committee discussed the fiscal 2011 audit strategy and audit plan. She added that it had never been an objective in the five year audit strategy plan to target financial condition, but rather to target institutions from an internal control cycle standpoint. She questioned whether the legislative auditor would have the staff support to do the kind of work around financial condition, but she added that it would be great conversation bout audit strategy objectives going forward. Trustee Van Houten added that at a minimum the three campuses gaidine unrestricted to be on the udit list.

Trustee Van Houten made the motion, Trustee McElroy seconded. The Audit Committee recommends that the Board of Trustees approve the following motion:

RECOMMENDED COMMITTEE ACTION:

The Audit Committee has viewed this proposal for audit coverage of the six colleges during fiscal year 2010. The committee recommends the 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.

3. Review and Approve Release of the Audited Financial Statementaction Item)

Mr. Asmussen explained the contents of the four documents that were handed out to the committee. The documents included summaries of the fiscal 2009 audit and financial audits, the annual financial report for the system, the supplement to the annual financial report and finally the required communications letter from Kern, DeWenter, Viere. He explained that the object for the committee would be tolerify any issues that should be refered to other policy committees, and decide if it

Mr. Wischmann reviewed the significant deficiencies

- Systemwide Information Technology Aprocess to adequately address prior year Information Technology comments that we essential to data security and business continuity in a timely manrhead not been fully developed Adequate user level security over current web application environments been implemented
- Reconciliation of Campus LocalBank Accounts—Four campus local bank accounts were not reconciled or not timely reconciled at June 30, 2009. Failure to accurately reconcile all local bank accounts increased the risk of misstatements of financial statement amounts.

Trustee Van Houtenoted that some of the same information technology comments had carried forward from prior years. Trustee Thiss added that the prior year security comments should be forwarded to the finance, facilities, and technology committee to be resolved. Mr. Wiskmann noted thathe comments had risen to a new level of reporting because they had not been fully addressut that the significance of the comments had stayed relatively constant. eladded that the majority of the user level security issues had already been addressed by the information technology staff ed

had staffing turnover, there had not been backup plan fonceing the local bank accounts and keeping them up to date, and a backlog was created that took new staff some time to reconcile. He added that the challenge was to set up a system that would allow other staff to keep up with the daily work load as wellwith the monthly reconciliations, even when turnover occurred.

Trustee England askedrif conciliations would be simpler if the accounts were under one banking structure as opposed to numerous local banks. Ms. King stated that it would not necessally be simpler to have one bank account. She

Ms. King stated that the Higher Learning Commissiand begun a neweview processor colleges and universities reporting a CFI value less 1tran Colleges and universities that exported a CFI of zero to 1.0 for two years or more may ceive an inquiry from the Higher Learning Commission he stated that an institution reported a CFI value less than zero for any one year, would automatically get an inquiry from the Higher Learning Commission. Chair Thiss stated that it seemed appropriate that any college or university with a CFI value less 1tran a negative fund balances ought to be on a watch list. Ms. King agreed.

Ms. King stated that take Superior College has kperienced a sharp financial decline in 2009, resulting from budgetver commitments and revenue forecast errothse college required a \$350,000 cash flow assistance loan System reserves at year end, and closed with a CFI value of 0.53, which would trigger a special gher Learning Commission eview. The college had prepared a financial work ut plan which had been reviewed by the finance division would be working with the administration take Superior College and she was fident that it could improve its financial position quickly. Ms. King stated that this even that add (10 (10 40) and (10 10) and (10) an

Trustee Thiss asked if there were possible systemic issues related to journal entry findings. Ms. King stated that the problemesulted primarily from turnover Trustee Thiss stated that staffing turnover would always occur. Ms. King agreed and one of the projects that the final ceporting group undertook was to work the campuses document ontrol cycles. Ensuring that procedure in writing would create a routine process that would alleviate some of the risk associated with staffing turnover

Trustæ Dicksonasked if the turnover reported at the colleges and universities would indicate that there may be a shortage of accounting programs to meet the needs. Mr. Wischmann noted that although things had changed over the years, he thought there was an arple supply of graduates for the accounting needs. Ms. King added that many of the positions available were in entry level career positions, which meant that after staff gained experience they would move on to other career options.

Trustee Van Houten comented that one of the issues that ought to be on the agenda at the system level was whether or not certain financial duties could be consolidated in larger campuses on a partnership basis. Ms. King stated that shared services was one of the six profile projects that would be reviewed in the upcoming year as a part of Students First.

Trustee Thiss congratulated Mr. Stoddard, Ms. King and the staff for their good work. Ms. King thanked her staff and the auditors for all their hard work. She added that there had been a lot of work in a tight window of time, and she was very pleased with the results.

Trustee Van Houten made the motion, Trustee Englund seconded. The Audit Committee recommends that the Board of Trustees approve the following motion:

RECOMMENDED COMMITTEE ACTION:

The Audit Committee has reviewed the fiscal year 2009 audited financial statements and discussed them with representatives of management and the external auditing firms. 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 release of the fiscal yea? 2000 ited financial statements as submitted.

The meeting adjourned at **00**: am.

Respectfully submitted, Darla Senn, Recorder