

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: July 20, 2010

Agenda Item: Discuss Approach for Auditing Internal Controls

Proposed
Policy Change

Approvals
Required by
Policy

Other
Approvals

Monitoring

Information

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

This topic has carried over from the discussion with the Legislative Auditor at the June 2010 meeting.

Scheduled Presenter(s):

John Asmussen, Executive Director, Office of Internal Auditing
Beth Buse, Deputy Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

The Audit Committee was challenged to consider the following questions:

- To what extent shall colleges and universities conduct risk assessments to examine the effectiveness of their internal controls?
- To what extent should the Board of Trustees rely on the work of the CPA firms who audit the system-wide and institutional financial statements for assurances about internal controls?

Background Information:

A financial audit conducted on St. Cloud State University by the Office of the Legislative Auditor was presented to the Audit Committee at the June 15, 2010 meeting.

Key issues were highlighted, including the responsibilities for assessing the adequacy of internal controls throughout the System.

System and each of its individual colleges and universities. As the table illustrates, though, that expectation has been tempered to require annual financial statement audits for only 13 of the 32 colleges and universities. The remaining colleges have been subject to a financial audit every three years pursuant to a contract which the Office of the Chancellor had executed with the Legislative Auditor. By mutual agreement, the contractual arrangement with the Legislative Auditor ended in fiscal year 2010. To address this void in audit coverage, the Office of Internal Auditing will develop a recommended strategy for the Audit Committee to consider.

Mr. Noble’s challenged the Audit Committee to consider the value and role of obtaining annual financial statement audits for individual colleges and universities². He based his challenge, in part, on questioning whether there were external audiences for whom these audits were prepared. The most comprehensive consideration of that question was addressed in a report prepared jointly by the Office of Internal Auditing and the Finance Division in January 2005 (see <http://www.internalauditing.mnscu.edu/committee/2005/january/plan-to-contract-cpa-firms-2005.pdf>). The report found sufficient benefits to justify the added costs associated with having the largest colleges and universities prepare audited financial statements. The primary benefits associated with the audited financial statements were the assurances provided to the Board of Trustees, Chancellor, and Presidents. In addition, the exercise helps establish a solid framework for the internal accounting discipline of those institutions and an enhanced understanding of their financial condition and operations.

The Audit Committee revisits the external audit plan each year, before authorizing audit contracts to be renewed. The next review is expected to occur in January 2011.

Table 1: History of External Auditing Plans

Date	Action
April 1999	Audit Committee required an analysis of the cost and effort associated with accelerating the preparation of audited financial statements (Note: Since the 1995 merger, the MnSCU System had been blended into the State of Minnesota financial statements. Changes in generally accepted accounting principles, though, meant that separate MnSCU system financial statements would be needed by fiscal year 2002.)
May 1999	Internal Auditing report issued on “Reliability of MnSCU Financial Data”
June 1999	Executive Director of Internal Auditing and Vice Chancellor – CFO proposed a plan for attaining audited financial statements.
July 1999	Board of Trustees approved following schedule for audited System and institutional financial statements: FY 2000 – Legislative Audit of MnSCU System Balance Sheet. FY 2001 – Legislative Audit of MnSCU System comprehensive financial statements.

