

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES  
AUDIT COMMITTEE  
MEETING MINUTES  
September 14, 2010**

**Audit Committee Members Present:** Trustees James Van Houten, Chair; Philip Krinkie, Dan McElroy, Alfredo Oliveira, Thomas Renier, and Michael Vekich.

**Audit Committee Members Absent:** none.

**Other Board Members Present:** Trustees Duane Benson, Jacob Englund, and Scott Thiss.

**Others Present:** Beth Buse, Laura King, and Gail Olson.

The Minnesota State Colleges and Universities Audit Committee held its meeting on September 14, 2010, at Wells Fargo Place, 4<sup>th</sup> Floor Board Room, 30 East 7<sup>th</sup> Street in St. Paul. Chair Van Houten called the meeting to order at 2:44 p.m. and reviewed the agenda.

**Approval of the Audit Committee Meeting Minutes**

*Chair Van Houten called for a motion to approve the August 19, 2010 audit committee meeting minutes. There was no dissent and the motion carried.*

Committee Chair Van Houten noted that Legislative Auditors had not yet arrived, so he adjusted the order of the agenda to begin the meeting.

**1. Discuss Approved Committee Goals (Information Item)**

Ms. Beth Buse, Executive Director of Internal Auditing, reviewed the motion that was approved by the committee at the special Audit Committee meeting in August. She noted that there had been extensive discussion about the committee goal and the approved action had been summarized from the discussion. Trustee Van Houten asked for final committee comments. There were no additional comments. Trustee Van Houten stated the approved goal would be recommended to the full board.

**2. Approve FY2011 Audit Plan (Action Item)**

Ms. Buse reviewed the Fiscal Year 2011 Audit Plan as presented. She highlighted the percentage of time estimated for each area of the plan and the timeline for bringing updates before the committee. Trustee Van Houten stated that he thought the Audit Plan was a good piece of staff work that helped explain step by step how the Office of Internal Auditing would assist the committee to achieve their goal. He encouraged members who had been involved in similar programs to comment on their experiences in terms of both the process and the organization of the steps.

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Trustee Krinkie asked what the benefits and drawbacks would be with conducting more internal control and compliance audits rather than financial statement audits. Ms. Buse stated that Legislative Auditor, Jim Nobles had challenged the committee to look at whether there was a need to have individual college and university financial statement audits. She stated that those comparisons would be part of the evaluation that would be considered as part of the review of the audit approach.

Trustee Krinkie asked for more detail about how that evaluation would take place. Ms. Buse stated that she planned to bring an approach for conducting the risk assessment before the committee in November. Trustee Van Houten stated that the risk assessment would include an evaluation of the number of financial statement audits that should be conducted. Ms. Laura King, Chief Financial Officer, stated that the financial statement audits would continue at some level because that work was under contract, though she added that the committee would need to make a decision in January about the continuation of a portion of that work.

The committee interrupted its discussion of the Fiscal Year 2011 Audit Plan to hear the presentation by the Office of the Legislative Auditor. When they returned to their discussion, Trustee Van Houten called for a motion to approve the Fiscal Year 2011 Audit Plan. *Trustee Vekich made the motion, Trustee Krinkie seconded. The Audit Committee recommends that the Board of Trustees approve the following motion:*

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Ms. King stated that the challenge would be ensure that the campuses continued to take advantage of the robust tool that has been provided to them. She stated that the Office of the Chancellor would monitor and provide continuous training, so that campuses would be able to use the tool properly. Ms. King stated that the security module would solve almost all of the incompatible duties issues which had become a chronic problem.

Trustee Van Houten noted that this issue was systemic and not just at the five colleges which had been audited. He asked if the same module had been implemented throughout the system. Ms. King assured the committee that the module would address the whole system.

Trustee Krinkie asked if there were specific examples of problems that existed prior to the module's release that had been corrected once the module was in place. Ms. Parnell stated that prior to the security module there had been a manual process in place. The security module provided an automated way of determining incompatible duties and ensuring that campuses were able to mitigate risks.

Trustee Krinkie stated that if it was a system wide issue, and it had been resolved at one college, the hope would be that the issue would be resolved system wide. Trustee Van Houten stated that the Finance Department and the Office of Internal Auditing would follow-up to ensure that education and communication were implemented for each of the findings throughout the system, and would report back to the committee throughout the year.

Ms. Buse stated that she believed the security module was a phenomenal tool for helping campuses address the issues of incompatible duties. It allows the institution to determine incompatible duties at the time the employee is set up in the system and allows the institution to document mitigating controls in instances where those incompatible duties

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Mr. Poliseno stated that finding five involved all five colleges not adequately managing their equipment and sensitive asset inventories. Trustee Van Houten noted that there was agreement with management on this finding.

With regards to finding six, Trustee Thiss stated that credit card findings had been a chronic issue. Ms. King stated that due to the type of issues related to credit cards there would never be complete resolution. She stated that the finding was labeled as systematic because every audit had found credit card errors. She stated that the question to examine was whether the errors were indicative of a larger systematic procedural failure or widespread fraud or abuse. She stated that it was necessary to understand why the errors were occurring.

Trustee McElroy asked if there was a policy prohibiting the use of gasoline credit cards. Ms. King stated that there was a system procedure that encouraged colleges and universities to use institution credit cards rather than merchant based credit cards, which were more difficult to manage. Trustee McElroy noted that institutional credit cards were suppose to be issued under specific employee names so that expenses could be reconciled with the employee who used them. Ms. King added that the audit finding had prompted a review of the current system procedure and that an amendment would likely be proposed. Trustee Van Houten asked how soon that proposed amendment might be brought before the Board. Ms. King stated that the proposed amendment would likely go to the Finance



Trustee McElroy stated that the committee had embarked on a design process for the audit approach. He added that the committee would take its work very seriously and that they would find a way to make the process work. He expressed concerns that they might get to the end of that process and go through another audit that would produce recommendations for yet additional layers of control.

Mr. Nobles stated that the fact that the Audit Committee existed and that there was presidential representation present were a positive part of the solution. He complimented the Chancellor for making rigorous financial management an important part of his interaction with the presidents. And he again stated that financial management was one of the real strengths at the Minnesota State Colleges and Universities. But he emphasized that in a large complex organization it was important to continually push the message of risk control and assessment down to the employees who conducted the financial transactions.

President Johns stated that the chancellor held the presidents accountable for audit issues, particularly on repeat audit issues. He added that as presidents, vice presidents, and deans there was much that could be done to educate and train employees to better understand the risk controls and assessment. Trustee Benson agreed with President Johns that this was a direction that the leaders needed to establish.

Trustee Alfredo asked if there would be a presentation to the committee in January that would provide an update on the status of the findings. Ms. Buse stated that she would present the Annual Report in January which would include an update on all outstanding audit findings that had been issued within the system.

In the goal of continuous improvement, Trustee Krinkie asked the Legislative Auditor if the processes that had been put in place to address some of the findings were appropriate. Mr. Nobles stated that they had been very encouraged but that they would likely not be conducting the future audits that would determine whether or not the change had been put into place and sustained. He stated that the committee would need to put into place a mechanism that would not only follow-up on the audit findings but also look for other areas where there might be lapses in internal control and compliance.

Trustee Van Houten thanked Mr. Nobles, Mr. White, and Mr. Poliseno for their presentation. He stated that the Board of Trustees were fiduciaries for people outside of the system as well as those within the system. Trustee Van Houten stated that he had great confidence that the committee would be able to work out a satisfactory tradeoff.

4. Discuss Internal Audit of St. Cloud Technical and Community College (Information Item)

Ms. Buse stated that St. Cloud Technical and Community College would typically have been part of the audit rotation by the Office of the Legislative Auditor. To get the coverage that was no longer offered by the Legislative Auditor, the Office of Internal Auditing conducted the audit. Ms. Buse introduced Ms. Melissa Primus, Southwest/Central Audit Coordinator who led the audit of St. Cloud Technical and Community College.

