



**AUDIT COMMITTEE
APRIL 22, 2015
8:00 A.M.**

**MCCORMICK ROOM
30 7TH STREET EAST
SAINT PAUL, MN**

Please note: Committee/Board meeting times are tentative. Committee/Board meetings may begin up to 45 minutes earlier than the times listed below if the previous committee meeting concludes its business before the end of its allotted time slot.

- (1) Minutes of March 18, 2015 (pages 1-6)**
- (2) Results of Minneapolis Community and Technical College Internal Control and Compliance Audit (pages 7 and 8)

Members

Philip Krinkie, Chair
Duane Benson, Vice Chair
Ann Anaya
Robert Hoffman
Michael Vekich
Erma Vizenor

Bolded items indicate action required.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING MINUTES
March 18, 2015**

Audit Committee Members Present: Trustees Philip Krinkie, Duane Benson, Robert Hoffman, and Michael Vekich.

Audit Committee Members Absent: Trustees Ann Anaya and Erma Vizenor

Others Present: Trustees Margaret Anderson Kelliher, Kelly Charpentier-Berg, John Cowles, Dawn Erlandson, and Maleah Otterson.

The Minnesota State Colleges and Universities Audit Committee held its meeting on March 18, 2015, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Chair Krinkie called the meeting to order at 9:06 a.m.

1. Minutes of January 28, 2015

The minutes of the January 28, 2015 Audit Committee were approved as published.

2. Internal Audit Update

Ms. Beth Buse, Executive Director of the Office of Internal Auditing, began by stating that the external auditor for the system, CliftonLarsonAllen, had entered into a consulting engagement with St. Cloud State University to review budget information over their academic programs. Ms. Buse explained the protocol to ensure the board of CliftonLarsonAllen's independence on financial statement engagements. The protocol includes overview by CliftonLarsonAllen's own quality assurance area, a review by Vice Chancellor King and Ms. Buse, and then finally a review by Trustee Krinkie, chair of the audit committee. Ms. Buse stated that the final step in the protocol was to inform the audit committee so that the committee's awareness of the engagement could be incorporated into the meeting minutes.

Ms. Buse continued with a staffing update. She stated that they had been working with human resources to get a classification for the manager of investigations position. Unfortunately, they have not been able to get a classification at an appropriate level in order to get an individual that could do the work. She stated that they were continuing to work with human resources but it has taking longer than anticipated.

Ms. Buse also informed the committee that Mr. Neal Dawson, the Information Technology Audit Manager had resigned as of the end of the month. She stated that they planned to begin the search for his replacement immediately. Trustee Krinkie recognized Mr. Dawson for his fine work and offered his best wishes for a prosperous future.

Ms. Buse gave an update on 2015 audit plan. She stated that the plan was somewhat behind schedule for a couple reasons. The special review at Metropolitan State University on payroll took a significant amount of resources that were not planned. She also noted that she had not planned for the Manager of Investigations position to be vacant for the entire year.

Ms. Buse continued by updating the committee on the activities that were in progress. She stated that the committee would be hearing the results of Grant Management internal control and compliance audit today, and next month they would hear the results of an internal control and compliance audit of Minneapolis Community & Technical College. The Office of Internal Auditing was doing fieldwork on an internal control and compliance audit of Minnesota State University, Mankato and an internal control and compliance audit of the Clery Act requirements. As soon as those projects were complete, staff planned to start two additional audits, but Ms. Buse noted that they would likely not be finished by the end of the fiscal year. One additional project would not be started in the current fiscal year, and Ms. Buse stated that they would reassess that to see if it was still a priority when audit planning for fiscal 2016 begins. She further noted that with the departure of Mr. Dawson, there would be delays in the informational technology audit work, though she informed the committee that they had contracted with the firm of Wipfli LLP to do some security assessments at three institutions, which was in the 2015 audit plan.

3. Review Results of Grant Management Internal Control and Compliance Audit.

Ms. Buse began by reminding the committee that Grant Management Internal Control and Compliance audit was on the audit plan for the year. It looks at controls around grant management, but it excludes student financial aid. CliftonLarsonAllen will report on their work with federal student financial aid at the April audit committee meeting. Ms. Buse will also provide an update at the same time on the work that Minnesota Office of Higher Education does on state financial aid. Ms. Buse thanked Ms. Melissa Primus for her work to lead this audit, as well as the audit coordinators who worked on the audit. Ms. Buse also thanked the colleges and universities for their assistance in completing the work and for Vice Chancellor Laura King and her staff for their assistance.

Ms. Melissa Primus, Audit Project Manager, started with background information on the Grant Management audit. The colleges, universities, and the system office are authorized to apply for and obtain grants. Those grants are generally obtained through competitive process. Each institution is responsible for managing their own grants. Ms. Primus reviewed the Grant Revenues for Fiscal Years 2014 and 2013.

Trustee Hoffman asked if a Jobs Skills Partnership grant was considered a state grant, and Ms. Primus stated that that they were state grants. Trustee Krinkie asked if the audit work gave any indication of the number of grants that were applied for versus the number of grants that the system received. Ms. Primus stated that the audit just looked at the grants that were received.

Ms. Primus continued by reviewing the audit objectives, the scope of the audit and the methodology. She stated that they had sampled seven institutions, and she emphasized that

the audit looked at the overall process for managing the grants. Individual grant activities were not tested for compliance with grant provisions, such as financial reporting, grant purchases, and meeting grant objectives.

Ms. Primus reviewed the audit results. The colleges, universities, and the system office applied for and received a variety of grants, including federal, state, and private grants. The grant requirements vary. Federal grants had numerous and complex requirements and whereas private grants may have had only a few requirements. Most institutions did not have dedicated resources focused on the management of grants.

Ms. Primus reviewed the five findings and one long-term consideration. The finding stated that there was minimal guidance addressing grant management practices. Ms. Primus stated that there was only one board policy addressing grants as well as some system procedures related to grants. She noted that only two institutions had their own policies and procedures related to grants that addressed several of the federal requirements. The audit recommended that system leaders determine if additional guidance is needed, and at what level it would be needed.

Ms. Primus continued by stating that Policy 7.7 contains a reporting requirements, and the audit found that for the grants that were reviewed, that information was not being reported to the board. The board continues to receive information related to gifts, but the grants portion of that reporting has ended.

Trustee Benson asked what the difference was between gifts and grants. Ms. Laura King, Chief Financial Officer, stated that there was typically a reporting requirement or performance expectation associated with a grant, but a gift was simple a gift. The two were coded differently in the system and were treated differently.

Trustee Krinkie asked how grant applications were tracked within institutions. President Pat Johns, Lake Superior College, stated that at his college, there was a grants coordinator who reviews and vets grants applied for by the college through various departments as well as the president's cabinet. He added that there was often matching dollars or administrative expenses that the college would want to incorporate in the grant, so a review process would likely be the normal process for most campuses.

Trustee Krinkie asked if there was a singular tracking system for grants. Ms. King stated that it was a topic she wanted to bring to the chief financial officer community. The policy requires presidents to sign grant agreements. Ms. King believed that the chief financial officers were likely involved in the process but that it would be good to have that conversation. She stated that it would be worth having more understanding about what the approval process was on the campuses. Ms. King stated that the process in the system office required her review of system office grant applications before they were submitted.

Ms. Primus continued by stating that findings two and three were both compliance related. Finding two stated that some institutions did not have procedures to ensure they complied with time and effort requirements for federal grants. Ms. Buse added that these were

reporting requirements and noted that they did not find evidence that campuses were out of compliance with the requirements related to the particular grants.

Ms. Primus stated that finding three was related to federal conflict of interest requirements. Five institutions reviewed did not have their own written standards related to conflict of interest, and instead relied on the system procedure related to code of conduct. She noted however that the code of conduct procedure was not designed to meeting federal requirements. The report recommends that institutions look at implementing their own written standards to meet the conflict of interest requirements.

Finding four stated that some grants agreements were not reviewed by system legal counsel prior to contract execution and two grants exceeding \$3 million were not approved by the Board of Trustees. Ms. Primus stated that board policy requires that contracts not prepared on MnSCU templates be reviewed by legal counsel. Grant agreements are considered legally binding agreements and should have been reviewed by legal counsel and that had not been done for six of the grants that were reviewed. Ms. Primus further stated that although board policy has been amended to no longer requiring state and federal grants come to the board, there were grants prior to that amendment that exceeded \$3 million and had not come to the board.

Trustee Hoffman asked for some clarification on which grants would need to go before the board. Ms. Primus stated that the current requirement was that any contract exceeding \$3 million would need to be approved by the board. Ms. King stated that she reviewed any contracts that were more than \$100,000 and less than \$3 million.

Trustee Krinkie noted that there have been times when naming considerations have been associated with large gifts, and he asked if those gifts were reviewed by the chief financial officer. Ms. King assured the committee that any time naming rights, pouring rights, bleacher or box sales at an athletic facility were considered, her office as well as the General Counsel's office would be involved in those transactions. She added that if it were a true gift without any expectation, then it would be reported to the board under the reporting process, but her office wouldn't generally be involved in those transactions.

Ms. Primus stated that finding five related to delegation of authority. She stated delegations of authority were not always in place for employees that applied for grants and signed grant agreements. The report recommends that the institutions ensure that they have procedures to ensure those delegations of authority are in place when persons are submitting grant agreements and when signing the grant agreements. Ms. Primus also noted that the delegation of authority process was a very manual and cumbersome process. The report further recommends that the process be reviewed to see if there was a better solution for managing delegations of authority.

Finally Ms. Primus noted that two institutions had a mature grants process in place, with their own policies and procedures and offices that were dedicated to supporting grant activity or contract activity. The report contained a long term consideration for college, university, and

system office leaders to consider alternative models for managing grants by leveraging the knowledge of larger institutions with more mature processes.

Ms. King offered her appreciation to the internal auditing staff for their work. She noted that building more robust grant application pipelines from the campuses has been a priority, and she appreciated the recommendations and planned to take the report to the chief financial officer community. Ms. King also noted that there were already some proposed policy and procedure amendments being drafted and reviewed, and that work would continue. Finally she noted that the long term consideration would be an opportunity for the Campus Service Cooperative to promote a community of best practice interest and partnership interest among the business offices.

President Johns agreed with Ms. King. He stated that Lake Superior College created a grant coordinator to try to pursue additional sources of funding and keep control over the grants process. He welcomed the information and agreed that campuses needed to sharpen their tools regarding grants.

Trustee Krinkie stated that if there was a way to track which institutions or departments had applied for which grants it might give the board a better sense of what the success rate for grant applications has been. He further noted that there are opportunities for trustees to speak to congressional representatives and if they had specific information about grants that have been applied for by institutions, it might be possible to ask for congressional assistance in obtaining federal funds.

Trustee Hoffman asked if was possible for campuses to work together on grant processes and collaborate with share services. President Johns assured the committee that campuses were already collaborating across the system and gave the example of the Trade Adjustment Assistance Community College and Career Training (TAACCCT) grant, with South Central College receiving \$15 million for advanced manufacturing education. South Central College applied for the grant on behalf of the Minnesota Advanced Manufacturing Partnership (MNAMP), a Minnesota State Colleges and Universities (MnSCU) consortium of 12 colleges and a Center of Excellence.

Chancellor Steven Rosenstone stated that while he agreed that grants were an important area for the development of new resources and very important when they helped to achieve academic priorities, he cautioned board members not to think of these resources as a revenue stream that would solve the system's financial challenges. He stated that the full cost of administering the programs were often not paid for by the grant. The colleges and universities were responsible for the overhead associated with administering the grants. He added that those costs were not a bad thing if they helped to advance academic priorities, but he cautioned members to distinguish those grant resources from new revenue coming in that might solve the revenue puzzle that the board had been discussing.

Trustee Hoffman stated that often the return on investment for these grants was worth the cost of administration if they brought real world experience to the campuses. The chancellor agreed, and stated that the academic priority accomplished by the grants should be the

primary focus. Grants could help to provide experiences and training for students and allow faculty to have resources and equipment necessary to deliver the kind of education that they strive for, but it should be remembered that there is a cost to administering a grant. He added that it may still be the right thing to do, but that members should not think of grant resources as solving the financial puzzle. Trustee Hoffman agreed.

Trustee Krinkie asked if the system tracked administrative costs for grants. Ms. King stated that federal grants were highly regulated and arbitrated in federal guidelines. She believed that all of the universities and many of the colleges tracked federal grant indirect cost rates, but that it was an area her office had not focused on in the past. Although it was presumptive, she agreed that more often than not, federal grants did not cover all the overhead on the campuses. Grants could be very useful for the academic and student life program, but they were not particularly useful for producing unfettered revenue that could be used for any variety of things.

Trustee Benson asked how much money came into the system in the form of gift and grants.

Ms. King stated that a number of years ago the advancement committee generated an annual gifts and grants report, but that practice had ended. She stated that that financial statements indicated that they system had averaged \$35-40 million a year in gifts when transactions flowing through foundations were included. Gifts to the MnSCU entity were very modest.

President Johns cautioned about the dependency of grant funded projects on campuses. He added that some grants provide resources for one time kinds of activities such as purchases of equipment. However, grants that help to create departments and hire personnel for a defined number of years, require the campus leaders to have a work plan that looks further into the future to determine how that project would be sustained after the grant ends. Personnel and activities leave the campus at the end of project can be traumatic for a campus. Trustee Krinkie agreed that it was not as simple as it may appear.

The meeting adjourned at 10:03 a.m.

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

Agenda Item Summary Sheet

Name: Audit Committee

Date: April 22, 2015

Title: Results of Minneapolis Community and Technical College Internal Control and Compliance Audit

Purpose (check one):

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|---|---|---|
| <input type="checkbox"/> Proposed
New Policy or
Amendment to
Existing Policy | <input type="checkbox"/> Approvals
Required by
Policy | <input type="checkbox"/> Other
Approvals |
| <input checked="" type="checkbox"/> Monitoring /
Compliance | <input type="checkbox"/> Information | |

Brief Description:

As part of the Fiscal Year 2015 Internal Auditing Annual Audit Plan, the Office of Internal Auditing conducted an internal control and compliance audit of Minneapolis Community & Technical College.

The results of the audit will be presented and discussed at the April 22, 2015 meeting.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing
Eric Wion, Deputy Director, Office of Internal Auditing

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

BOARD INFORMATION

**RESULTS OF MINNEAPOLIS COMMUNITY AND TECHNICAL COLLEGE
INTERNAL CONTROL AND COMPLIANCE AUDIT**

1 In June 2014 the audit committee approved the Fiscal Year 2015 Internal Auditing Annual Audit
2 Plan. As part of that plan, the Office of Internal Auditing conducted an internal control and
3 compliance audit of Minneapolis Community & Technical College.
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5 The results of the internal control and compliance audit of Minneapolis Community & Technical
6 College will be released at the April 22, 2015 audit committee meeting. Copies of the final
7 report will be available at the meeting. Additional copies of the final report may be obtained
8 from the Office of Internal Auditing web site: www.internalauditing.mnscu.edu starting on
9 April 22, 2015.
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Date Presented to the Board of Trustees: April 22, 2015